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Thailand – Government Decides on Personal Income Tax Reform
by KPMG, Thailand (a KPMG International member firm)

On 18 December 2012, Thailand's government approved a tax cut in the form of reductions to personal income tax rates for 2013.[1] It also approved the ability of husbands and wives to file separate tax returns.

The proposals must undergo a parliamentary review process which should lead to passage of an Act – this should happen shortly.

Tax Cuts

The move to cut taxes is intended to increase net disposal incomes particularly for lower- and mid-income earners in hopes of encouraging consumption and thereby helping boost Thailand's economy.

The new tax scale is more progressive with eight income tax brackets, up from the current five with the addition of the 5-percent, 15-percent, and 25-percent rates applied to certain income brackets (as noted in the table below). The top marginal tax rate decreases slightly to 35 percent from 37 percent on net taxable income of THB 4 million per annum or above (approximately USD 133,000 pa).

New Tax Scale: Effective 1 January 2013

(Bolded items show new rates and income brackets.)

Annual net assessable income (THB)	Tax rates	Income increment (THB)	Concessional tax (THB)
1 - 150,000	0%	150,000	-
150,001 - 300,000	**5%**	**150,000**	**7,500**
300,001 - 500,000	10%	200,000	20,000
500,001 - 750,000	**15%**	**250,000**	**37,500**
750,001 - 1,000,000	20%	250,000	50,000
1,000,001 - 2,000,000	**25%**	**1,000,000**	**250,000**
2,000,001 - 4,000,000	30%	2,000,000	600,000
4,000,001 - above	35%		

Current Tax Scale – Until December 31, 2012

Annual net assessable income (THB)	Tax rates	Income increment (THB)	Concessional tax (THB)
1 - 150,000	0%	150,000	-
150,001 - 500,000	**10%**	**350,000**	**35,000**
500,001 - 1,000,000	**20%**	**500,000**	**100,000**
1,000,001 - 4,000,000	**30%**	**3,000,000**	**900,000**
4,000,001 - above	37%		

KPMG Note

This is a welcome step taken by the government; there has been no major change in the personal income tax rates in the last 20 years. Under the new tax rates, on average, total tax will be reduced by 21 percent, 15 percent, and 7 percent for individuals with net taxable income of THB 500,000, THB 1 million, and THB 4 million, respectively. Those low- to mid-income earners should benefit the most in terms of tax savings given the percentage change in the rates and mid- to high-income earners should benefit from the changes with more disposable income as their income base at which the rates apply will be higher.

Higher earners with net taxable income of THB 4 million and over, on average, should see their effective tax rate reduced by between 1.75 percent and 2 percent.

For those assignees on a tax equalization policy, any Thai tax reduction will not impact their net income positions as they are generally protected, due to the policy, from any fluctuations in Thai tax (this will be different for individuals on assignment under a tax protection policy). The benefit of the Thai tax cut should go to the company.

Assignees are typically taxed at the highest tax rate due to their income level. The benefit from the reduction of the tax rate for the highest bracket is not significant and is still not competitive when compared to jurisdictions like Hong Kong and Singapore (which offer very attractive personal income tax rates). There are, however, alternatives for assignees to save on taxes in Thailand, such as working for a Regional Operating Headquarters (ROH) which “incentivizes” employees by means of a personal income tax rate of 15 percent instead of the progressive tax rates.

The cut in the personal income tax for 2013 will take effect upon the issuance of the Act which we anticipate to be in 2013.

Separate Tax Filing

During the Cabinet meeting on 18 December, the government also approved the ability of husbands and wives to file separate tax returns for income other than employment income. This will take effect immediately.

KPMG Note

Separate filings would be more beneficial than a joint family unit filing due to the possibility of lowering the effective tax burden for family units because each member would be taking advantage of the progressive tax rates. In addition, each affected member of the family unit will be allowed to take a full deduction for dependent's allowance.

Footnote:

1 Source: The Secretariat of the Cabinet (in Thai) (see 3rd line down from the top) – www.soc.soc.go.th/SLK/showlist2.asp?pagedate=2012/12/18&pagegroup=1 .

For a brief report (in English), see the Thai Ministry of Finance Web site at: http://www2.mof.go.th/picture_news_detail.php?id=6372 .

For a secondary report, see "Income tax cuts in Thailand announced this week," posted online on Pattay103.com (20 December 2012) at: http://www.pattaya103.com/tax-cut-thailand/ .

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