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Thailand: Revised Personal Income Tax Law Comes into Effect

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Amendments to Thailand's personal income tax regulations come into effect in 2017. While tax rates remain generally unchanged, adjustments in the tax bracket structure as well as deductible allowances and expenses are aimed at easing the taxpayer's burden.

From the beginning of the 2017 tax year, amended personal income tax regulations will come into effect in Thailand. In mid-December 2016 the Parliament approved the final draft of the law, now pending, to be signed by the King and formally published which is expected to happen in the coming weeks. The amendment follows the initial proposal which was earlier agreed by the Thai Cabinet in April 2016. While tax rates remain generally unchanged, adjustments in the tax bracket structure as well as deductible allowances and expenses are aimed at easing the taxpayer's burden. Changes will affect the Personal Income Tax filing for 2017, to be filed until March 31, 2018. Employers paying income will need to take the changes into account for calculations of withholding tax already during the 2017 tax year, however, legally, they are not required, or permitted to do so, until the law has been formally published.

I. Overview of the Thai Personal Income Tax System

Thailand's Personal Income Tax ("PIT") system is based on progressive rates ranging from 0 percent to 35 percent with increments of 5 percent points. The tax is applicable for any income from sources within Thailand (income from an employment or business carried out in Thailand or business of an employer residing in Thailand, or property situated in Thailand) for resident or nonresident taxpayers. Various personal allowances and expense deductions are granted in the computation of the tax liability.

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Thai tax residents, defined as any person residing in the country for more than 180 days per year, are also taxable on any income derived from sources outside of Thailand upon bringing such income into the Kingdom in the same tax year. The fiscal year is the calendar year.

Employers or other payers of income in Thailand are required to deduct withholding tax upon paying assessable income to the individual taxpayer. Basis for the computation of such withholding tax are generally the progressive tax rates while certain fixed withholding tax rates apply for certain income categories such as dividends (10 percent), interest payments (15 percent) or rental income (5 percent). A Thai resident may consider the withholding tax on interest and dividend income as the final tax, or include the interest or dividend in their assessable income and claim credit for the withholding tax. However, such withholding tax is a final tax for a nonresident.

Thailand has entered into agreements for the avoidance of double taxation with more than 60 countries which may limit or reduce the taxes in certain cross-national scenarios.

II. Amendments for 2017

A. Tax Bracket Structure

The first part of the amendments focuses on the tax bracket structure (see Table 1). Tax rates up to taxable income of 2 million baht per year remain unchanged with tax rates ranging from 5 percent to 25 percent. The 30 percent tax bracket which previously was applicable on assessable income from 2,000,001 baht to 4 million baht will now extend from 2,000,001 baht to 5 million baht. Accordingly, the top tax rate of 35 percent now applies to taxable income over 5 million baht.

Table 1. Comparison of the Previous and New Tax Rate Structure

Previous Tax Rates		New Tax Rates effective from January 1, 2017	
Taxable Income (in baht)	**Rate**	**Taxable Income (in baht)**	**Rate**
0 - 150,000	0%	0 - 150,000	0%
150,001 – 300,000	5%	150,001 – 300,000	5%
300,001 – 500,000	10%	300,001 – 500,000	10%
500,001 – 750,000	15%	500,001 – 750,000	15%
750,000 – 1,000,000	20%	750,000 – 1,000,000	20%
1,000,001 – 2,000,000	25%	1,000,001 – 2,000,000	25%
2,000,001 – 4,000,000	30%	2,000,001 – 5,000,000	30%
Over 4,000,000	35%	Over 5,000,000	35%

B. Tax Allowances and Expense Deductions

In addition to the change in tax bracket structure, deductible expenses and allowances are largely increased and in many cases double compared to the previous rates (see Table 2).

The general expense deduction for income as specified in section 40(1), 40(2) and 40(3) of the Thai Revenue Code has been increased from 40 percent of income capped at an amount of 60,000 baht to 50 percent of income but not more than 100,000 baht. Moreover, various tax allowances have been increased: The personal tax allowance has been increased from 30,000 baht to 60,000 baht, similarly the spouse allowance has been increased from 30,000 baht to 60,000 baht. The child allowance has been raised from 15,000 baht per child (previously capped at three children) to 30,000 baht per child with no limitation on the number of children. Due to the amendment, the child education allowance of 2000 baht is repealed.

Table 2. Overview of Selected Deductible Expenses and Personal Allowances

Type	Amount in baht (previously)	Amount in baht (effective from January 1, 2017)
General expense deduction for income from dependent or independent employment (except professional services); Income from copyrights; goodwill (new); other rights (new).	60,000 (but not more than 40% of income)	100,000 (but not more than 50% of income)
Personal allowance	30,000	60,000
Spouse allowance	30,000	60,000
Child allowance	15,000/17,000 per child (per child for a maximum of three children)	30,000 per child (uncapped)
Parental support allowance	30,000 per parent or spouse's parent	30,000 per parent or spouse's parent

C. Effect of the Amendments

The effect of the changes in the tax structure on the amount of tax paid has to be viewed separately in two ways: The extension of the 30 percent tax bracket from 4 million baht to 5 million baht will only benefit high income earners, i.e. those taxpayers who, after all deductions of expenses and allowances, have assessable income of more than 4 million baht per year. This is a very small fraction of the taxpayers, e.g. Thai or foreign personnel in management or expert positions amounting to around 20,000 out of the total 10 million taxpayers or 0.2 percent.

In case of a person who earns exactly 5 million baht after all deductions have been applied, the tax to be paid under the new rate structure will be 1.265 million baht whereas previously it would have been 1.315 million baht. The maximum tax savings from this change is 50,000 baht per year.

On the other hand, the change in the deductible expenses and allowances will benefit all taxpayers. A single earner with spouse and two children could previously deduct up to 90,000 baht in allowances and up to 60,000 baht as the general expense allowance on his employment income, i.e. a total of 150,000 baht. Under the new legislation the amounts will increase to 180,000 baht in allowances and 100,000 baht for the general expense deduction, i.e. 280,000 baht in total. The increase of 130,000 baht in deductions directly translates into tax savings by applying the individual top tax bracket (assuming no resulting change in the tax bracket). For example, for a taxpayer with an individual top tax rate of 15 percent the savings would be 15 percent of 130,000 baht = 19,500 baht per year whereas a high income earner could save an amount of 35 percent of 130,000 baht = 45,500 baht per year.

While the biggest savings in absolute terms are again realized by high income earners, in relative terms the increase of allowances will also strongly benefit lower income earners.

This can be best illustrated with a single taxpayer with standard deductions. Under the new allowances a monthly income of up to 25,833 baht will remain tax-free while previously this was only 20,000 baht per month.

Looking at the reasoning behind the changes, the elimination of the cap for the child allowance is aimed to conquer changing demographics and to encourage people to have more children.

While the increase of allowances is quite large in absolute and relative terms, there had been no adjustment for several years in a period of steady rising income and inflation resulting in an increase of an individual's tax burden. With a more difficult economic climate, the tax reductions are also aimed to promote private consumption. This is mirrored in other ad hoc tax saving measures such as additional allowances for year-end travel and year-end consumption, which were announced by the Thai Government in December 2016 with practically no lead time. Taxpayers are advised to follow the news for similar measures that may still be announced for the fiscal year 2017.

The move to effectively reduce the PIT for high-income earners follows previous reductions in the tax rates for corporate taxpayers and thereby closing the gap in taxation. With the corporate tax rate at 20 percent and a flat 10 percent withholding tax on dividend payments the effective tax rate for business owners when combining tax on corporate and individual level is effectively 28 percent on profits.

III. Personal Income Tax Incentives under Selected Promotional Schemes by the Board of Investment

Comparing Thailand to other countries in the region, the levels of corporate taxation with 20 percent is on the lower end of the scale, whereas personal income taxation with the top rate of 35 percent tax ranks on the higher end. As individual taxation may in some cases be an important factor for a manager when facing the decision where to establish a regional presence in order to cater to the Asian market (and then pay his own taxes there), Thailand offers a number of promotional schemes by the Thai Board of Investment ("BOI"), aiming to create more attractive conditions. With respect to PIT, the International Headquarter Scheme and International Trading Center Scheme both offer possibilities for expatriate staff to enjoy a flat tax of 15 percent on the income derived from employment by the promoted business, among other tax and non-tax benefits.

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