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Thailand needs better tax regulations, enforcement to fight "shadow" economy

Thailand has been using tax policies to promote growth and encourage foreign investment. Some of those measures have succeeded but more attention needs to be paid to the revenue-raising side of the tax regime.

Globalization has disrupted the way countries think about their tax regimes. In the past, the issue of double taxation was at the forefront, whether companies would have to pay tax in both their home country and in other countries where they had a presence. Today, the issue is whether they will be taxed at all.

Competition for investment means that companies are often able to shop around for the best tax breaks, reducing their tax loads to virtually nothing in some cases.

For its part, Thailand has been relatively successful in attracting foreign companies by working on its tax policy. In one example, corporate tax holidays were extended to 13 years from the original 8 years to promote foreign direct investment. In another, in 2016 and 2017, the government allowed companies to deduct from their taxes two or three times the value of the expense of research, development, and innovation.

The government has also used regulations on personal income tax as a tool for growth. It introduced several schemes to help low-income earners, promote savings, and encourage charitable donations. In 2016 and 2017, it designed special tax schemes to stimulate short-term consumption. They managed to give the economy a boost but at the expense of the government's revenue raising.

Thailand's Revenue Department also has to deal with a large shadow economy, where goods and services are produced outside of the country's tax and regulatory structure.

Between 1999 and 2007, the shadow economy was estimated to have produced 51% of the country's gross domestic product.

The government has introduced some measures to bring more companies back into the legitimate system. In 2015, the government passed a law that will force financial institutions to use financial accounting companies to submit to tax authorities as evidence of their finances when they seek a loan, starting in 2019. That should ensure that the Revenue Department is seeing the true incomes of companies when they report.

The government has also been pushing to make Thailand a cashless society, which should lower costs for companies and the government while also minimizing tax evasion. As of March 2018, all payments paid and received by government agencies have been done electronically.

The tax regime itself needs to be altered to help fight the shadow economy and tax avoidance in general. At the moment, while the government has been trying to close loopholes in the tax laws, there isn't even a rule against tax avoidance.

The Revenue Department should be able to access the bulk data collected by other government departments and agencies, as well as the private sector, to find those who are avoiding tax payments.

The government should also consider changing the way the Revenue Department staff are treated. Like many government agencies, the number of staff in the Revenue Department has been dropping, as a policy of reducing government size is carried out. But the Revenue Department is a revenue-raising entity and it makes little sense to downsize it.

Training and other human resources development need to be upgraded at the department to retain staff, since it currently suffers from a brain drain as workers leave for private sector jobs.

International organizations can help Thailand deal with some of the tax avoidance issues that countries elsewhere have faced.

This podcast is based on a chapter of the Asian Development Bank Institute book, *Tax and Development, Challenges in Asia and the Pacific.* The chapter, Thailand's Tax Policy Agenda and Collaboration with International Organizations, was written by Patricia Mongkhonvanit, deputy director-general of the Revenue Department of Thailand.

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