The Nation

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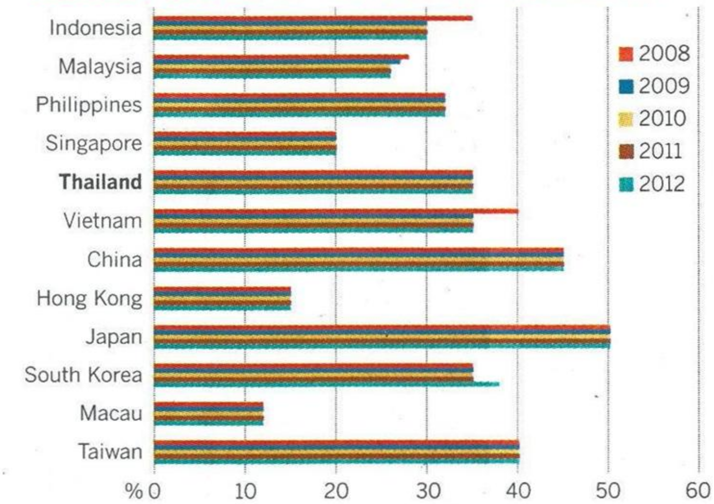
SPECIAL REPORT

STEEPER TAX CUT NEEDED TO STOP 'BRAIN DRAIN'

HIGHEST RATES OF PERSONAL INCOME TAX



Source: KPMG International

NATION GRAPHICS

Move will attract more talent to the country and draw new investment, say experts

ACHARA DEBOONME
THE NATION

The Pheu Thai government is trying to keep taxpayers happy by restructuring the personal income tax rates, but a steeper cut is necessary if the Kingdom wants to raise its profile among foreign investors, who are being wooed by countries with lower tax rates.

Also a steeper cut will be fair to all those who pay income tax, experts said.

Effective next year, the personal income tax rate for the highest bracket will be cut from 37 per cent to 35 per cent, the first major change in 20 years. True, the tax in Thailand for this bracket is lower compared to the 41 to 50 per cent in China and Japan, and 40 per cent in Taiwan. However, compared to Singapore and Malaysia – the two Asean members who offer comparative levels of infrastructure and skilled labour as Thailand – this rate is still high. Singapore's highest tax rate is 20 per cent, while Malaysia is 26 per cent. Regionally, Thailand's top personal income tax rate is the highest, even when compared to Vietnam, which charges 35 per cent and Indonesia, which has fixed its rate at 30 per cent.

Thavorn Rujivanarom, lead tax partner of PwC Thailand, said cutting taxes would be one of the first steps Thailand would have to take in order to avoid brain drain and attract newcomers.

"With the corporate tax cut, we can draw new investment and create new jobs. With lower personal income tax rates, we can draw professionals like doctors. This will benefit the country as a whole as this would make Thailand more attractive for international workers," he said.

Under the new tax structure in Thailand, those with a net taxable income of above Bt4 million are subjected to the highest rate of 35 per cent. In comparison, expats working in Singapore pay 15 per cent if they have taxable income of no more than S$160,000 or Bt4.06 million. The highest rate of 20 per cent is slapped on those with taxable income of more than Bt8.1 million. In Malaysia, only those with taxable income of more than 100,000 ringgit or Bt10 million are subjected to the highest rate of 26 per cent.

"Tax savings aside, it is essential for the government to focus on the

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overall picture – making Thailand an attractive job market particular-ly when the Asean Economic Community comes into effect," Thavorn said.

Benjamas Kullakattimas, tax partner at KPMG Thailand, said tax cuts would benefit foreign companies' highly skilled employees who normally have to pay the highest tax. Indeed, there are alternatives for expats to save on taxes in Thailand, such as working for Regional Operating Headquarters which would see their personal income tax rate being brought down to 15 per cent.

When asked what the government could do to make Thailand more attractive as well as make the tax structure fair to all parties, she suggested further cuts in personal income tax.

"When the corporate income tax is reduced, the personal income tax should also be reduced. Prior to 2012,

When asked what the government could do to make Thailand more attractive, Benjamas suggested further cuts in personal income tax.

the effective corporate income tax rate was 37 per cent and the highest personal income tax rate was also 37 per cent. Since the corporate income tax rate will be reduced to 20 per cent in 2013, the personal income tax should also be cut to stay aligned with the corporate tax rate; for instance, 28 per cent. This would be fair to all parties. The tax-rate gap between corporates and individuals could possibly move individuals to run their business in the form of a corporation so as to pay an effective tax rate of 28 per cent," she said.

However, without more cuts or an increase in value-added tax, she anticipates that in light of a lower corporate tax rate, the Revenue Department will next year start flexing its muscles more to achieve the revenue target. More close scrutiny of tax audits can be anticipated.