

The tax package and economic stimulus

Domestic demand had begun to show signs of recovery since 2007 H2, along with accelerated disbursement of public spending to help stimulate the economy. Nevertheless, external risks to growth intensified due to the US subprime problem as well as volatile world oil and commodity prices. Meanwhile, domestic cost of living was on a rising trend. Fiscal policy had a role to play in supporting the continuation of domestic demand recovery. The Cabinet thus approved the tax stimulus package on 4 March 2008.

Tax measures had an advantage over additional government expenditures or supplementary budget both in terms of policy effectiveness and the speed with which the package could be put forward and implemented. Even though it would take some time for tax measures to materially affect the behavior of the real sector, the psychological impact on consumer and investor confidence could be immediate, which could in turn lead to an increase in private spending. Increasing the budget, on the other hand, would inevitably face delays during both the budgeting and disbursement processes. Moreover, the timing made additional budget less suitable as half of fiscal year 2008 had passed while the fiscal year 2009 budget had already been approved, with the budget deficit raised to 2.5 percent of GDP in order to help stimulate the economy.

The tax stimulus package introduced on 4 March 2008 could be divided into three main categories, namely, revenue enhancing measures, small and medium size enterprises (SMEs) support measures and investment stimulus measures.

With regard to the impact of these measures on government revenue, the primary estimate of revenue loss stood at around 48 billion baht in the first two years (2008-2009). Note that this estimate excluded revenue gains from the second-round effect. (See Table 1.) Most of the loss occurred through higher waiver for taxable personal income, accelerated depreciation allowance in the first year for machinery and equipments, and reduction of specific business tax on property sales (Table 2). Nevertheless, the actual loss of government revenue could differ from this estimate, depending partly on how consumers and investors responded to these measures, as well as changes in the domestic and external risk factors.

Table 1 Estimate of government revenue loss
(excluding revenue gains from the second-round effect)

(Million baht per fiscal year)	Period	2008	2009
1. Revenue enhancing measures			
1.1 Higher taxable income waiver, raised to 150,000 baht	-	400	14,600 (from 2009 onward)
1.2 Higher tax allowance for Long Term Equity Fund and Retirement Mutual Fund	-	0	2,000 (from 2009 onward)
2. Investment stimulus measures			
2.1 Higher depreciation allowance for machinery and equipment in first year of use	2008-2010	12,500 (Present value in 2008)	
2.2 Reduction of specific business tax on property sales	1 year	4,000	9,000
2.3 Reduction of corporate income tax for both existing and newly listed companies in the Stock Exchange of Thailand (SET) and the Market for Alternative Investment (MAI)	2008-2010	1,800	3,700
Estimated revenue loss		48,000 (2008-2009)	

Table 2 Tax stimulus package

	Type	Old	New	Period	Notes
1. Revenue enhancing measures					
1.1 Higher taxable income waiver	Personal income tax	First 100,000 baht	First 150,000 baht	-	
1.2 Higher tax allowance for life insurance premium	Personal income tax	Maximum 50,000 baht per year	Maximum 100,000 baht per year	-	
1.3 Higher tax allowance for Retirement Mutual Fund (RMF) plus provident fund or pension fund contribution	Personal income tax	Maximum 300,000 baht	Maximum 500,000 baht	-	
1.4 Higher tax allowance for Long Term Equity Fund (LTF)	Personal income tax	Maximum 300,000 baht	Maximum 500,000 baht	-	
1.5 Higher allowance for child, adopted child, spouse, and parents who are disable persons	Personal income tax	None	30,000 baht per disable person per year	-	Required disabled person's I.D. card in accordance with the Rehabilitation of Disable Persons Act B.E. 2550
2. Small and medium size enterprises (SMEs) support measures					
2.1 Tax waiver for community enterprises	Personal income tax	None	Only for enterprises with revenue less than 1.2 million baht per year	3 years	Community enterprises under the Community Enterprise Promotion Act, B.E. 2548 only
2.2 Tax waiver for SMEs	Corporate income tax	Progressive rate*	First 150,000 baht of net profit	-	
3. Investment stimulus and competitiveness enhancing measures					
3.1 Deduction for expenditures on energy-saving machinery and equipment	Personal income tax and corporate income tax	None	Deduction at 1.25 times of expenditures	3 years	For properties that individual and company or juristic person acquired within 31 December 2010
3.2 Depreciation allowance for machinery and equipment related to production and services	Corporate income tax	Within 5 accounting periods	40% of costs on the delivery date, the rest within 5 accounting periods	3 years	For properties acquired within 31 December 2010
3.3 Depreciation allowance for computer software	Corporate income tax	Within 10 accounting periods	Within 3 accounting periods	-	
3.4 Depreciation allowance for computer software (for SMEs)	Corporate income tax	Within 10 accounting periods	40% of costs on the delivery date, the rest within 3 accounting periods	-	
3.5 Depreciation allowance for assets excluded land and commodities (for SMEs)	Corporate income tax	40% of costs on the delivery date, the rest within 5 accounting periods	100% of costs (Maximum 500,000 baht per accounting period)	3 years	For properties acquired within 31 December 2010
3.6 Tax cut for newly listed companies in the year 2008 (1) MAI (2) SET	Corporate income tax	Net profit tax rate 30% 30%	Net profit tax rate 20% 25%	3 accounting periods	
3.7 Tax cut for existing listed companies (1) MAI (2) SET	Corporate income tax	Net profit tax rate 30% 30%	Net profit tax rate 20% 25%	3 accounting periods	Profit <20 million baht Profit <300 million baht
3.8 Specific business tax cut on property sales in commercial or for-profit trading	Specific business tax	3%	0.1%	1 year	Since the law became effective (29 March 2008)
3.9 Reduction of registration fees for property transfers and mortgages (1) Transfers (2) Mortgages	Non tax revenue	Fees 2% 1%	Fees 0.01% 0.01%	1 year	Since the law became effective (29 March 2008)

* Tax Rates = 15% of the first 1,000,000 baht net profit, 25% of net profit 1,000,000-3,000,000 baht and 30% of net profit > 3,000,000 baht

