The Top 1 Percent of Thailand: Their Income Sources and Tax Due*

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The rising share of total income held by the top 1 percent has had a substantial impact on income inequality in developed countries. In the United States, the share of the top 1 percent more than doubled from 9 percent in 1976 to 20 percent in 2011. In other rich countries, the trend was similar but the scale differed among countries. Some have argued that this concentration is a result of technological changes increasing the rewards to skill,[1] but the differences in scale across countries with similar technological context suggests that institutional and policy factors are more important. Alvaredo et al. (2013) identify four factors contributing to the recent rise in the income share of the top one percent in developed countries: (1) reductions in the tax rates on top-tier incomes; (2) stronger bargaining by top executives / managers resulting in higher pay at the expense of workers' wages;[2] (3) an increase in the share of unearned income in total income arising partly from reductions in wealth and inheritance taxes; and (4) a growing tendency for the same people to earn both high earned and unearned incomes.[3] Weighting the contribution of each of these factors is difficult, but changes in tax have clearly played an important role. There is a high correlation between reductions in the top-tier tax rates, and the rise of the income share of the top 1 percent.

In the US where the top income tax rate was cut dramatically, this was followed by sharp increase in the share of total annual income held by the top one percent. In Germany, Spain, and Switzerland, where there was no significant reduction in the top tax rate, the increase was much less marked. In France a rise in the share of unearned income in total disposable income has been linked to reductions in tax rates, especially on inheritance. Using time-series data on income tax revenues, researchers in developed countries have been able to plot the changes in the income share of the top 1 percent and to analyze the impact of tax policy changes on the level of income inequality.

There have been no similar studies in developing countries because similar time-series data on income tax revenues are not available to researchers.

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[1] For a survey, see Katz and Autor, 1999.

[2] The argument is that when marginal tax rate is very high, top executives do not put much effort into bargaining for higher pay; but when the marginal rate falls, and their gain is therefore greater, they put more efforts into bargaining. This means their gain is subtracted from the worker share ; and they may spend less time making the company grow (Alvaredo et al, 2013; Galbraith, 2012)

[3] Contrary to the popular belief that the top earned and unearned income are separate groups of people and those with high unearned income tended to be concentrated among property owners or the old wealthy. Data are difficult, but researchers have noted more correlation between the two than in the past because: a) accumulated family wealth has a role in getting the top-earning jobs; and b) savings from top earned income are significant source of unearned income (Alvaredo et al, 2013).

The Revenue Department (RD) of Thailand kindly provided a randomly selected sample of 0.3 percent of the data from the two personal income tax forms (PND90 and PND91)[4] for the year 2012, referred to as "the RD sample data set". [5]This has information on income by source, expenses, allowances, donations and tax due with no identification of the filer except the province of residence.

This RD sample data set has several weaknesses. First, the data are for one year only, thus we cannot assess changes over time. Second, income tax coverage is thin in the sense that the system leaves a lot of people out. For example the number of income tax filers is rather low in relation to the total employed labour force (about 25 percent in 2012 in Thailand as against 96 percent in the US).

The third weakness is that the data on income from sources other than employment income are incomplete for two major reasons. One is a result of the existing revenue code. Tax filers are not required to declare several types of income including (i) income which is tax exempt such as capital gains on share transactions and income from foreign sources unless transferred to Thailand in the year when it was received and (ii) income in the form of interest and dividends, which is subject to withholding tax (WHT) but is not reported unless the filer wants to obtain a tax refund (filers in the top tax bracket may not be eligible for a refund and have no incentive to report the income from these sources). The other major reason why data in the tax forms are incomplete is failure to report or under-reporting as, for example, in the case of fees and rent income, particularly if the income is not received from a corporate entity that deducts and reports WHT on fees and rents paid, or business conducted on own account with private customers.

Considering the weaknesses mentioned the idea of analyzing income of the top 1 percent using the income tax statistics loses some of its force.

Nevertheless, while recognizing these problems, this paper will examine what the RD sample data set, along with other sources, can tell us about the top 1 percent of income-earners who pay income taxes in Thailand, and about the efficacy of the income taxation system.

We first explain how the sample of the top 1 percent households is derived. Then the structure of income sources of the top 1 percent is analyzed, using the income tax forms from the 0.3 percent sample from the RD, which, as we shall conclude, represent mainly the top 1 percent in terms of employment income. This is then compared to evidence from other available sources on the level and structure of income sources of the top 1 percent in Thailand. The fourth section reports the tax burden of the top 1 percent as shown in the sample forms, both in terms of tax paid and as a percentage of net income before tax. The last section offers some remarks on these findings and some suggestions for improving the PIT system.

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[4]PND90 or ภงด.90 is the personal income tax form for those who earn income from different sources (income categories 1-8). PND 91 or ภงด.91 is the form for those with income from wage and salary only.

[5] For details of the sampling and strengths and weaknesses of this data set see Appendix 5.1 in this chapter.

1. The top 1 percent households in the 0.3 percent sample of personal income tax forms from the Revenue Department.

According to the population census, there were around 20 million households in Thailand in 2010. There were thus 200,000 households [6]in the top one percent, represented in our 0.3 percent sample by the 600 records with the highest declared net income before tax (gross income less expenses).

2. Levels of income and income sources of the top 1 percent in 2012

Average net income [7] reported in the top 600 sample records was about 2.6 million baht per year, accounting for 20.8% of the total on all forms in the sample. This indicates a high level of income concentration at the top, similar to that found in the US.

Of total net income in the 600 records, 87 % was employment income, meaning wages and salaries. Income from dividends and interest was only 7.5 percent. Business and other income was 3 percent and income from royalties, professional fees, contracting and rents was insignificant (see Table 5.1).

Table 5.1. Income sources of the top 600 records in RD's 0.3 percent sample for 2012

Income source	*Net income (Baht) average per filer*	*(%)*
Employment	2,215,185	86.8
Royalties	429	0.0
Interest & dividends	190,458	7.5
Rents	35,598	1.4
Professional fees	27,024	1.1
Contracting	7,761	0.3
Business and other	75,741	3.0
All sources	2,552,196	100.0

The reported level of employment income may be fairly realistic. Average gross employment income for the top 600 forms before deduction of expenses was about 3.7 million baht per year which is comparable to salaries paid to top officials in the public sector. For example in the mid 2010s the three top ranking positions of dean, deputy rector and rector in a leading public university received a basic annual

[6] We use households to include family members in the group who also receive very high income.

[7] Net income is calculated here as gross income less expenses as permitted in the personal income tax regulations. We shall use the term taxable income to refer to net income less deductions of allowances and donations, noting that the first 150,000 Baht of taxable income is effectively tax free, being subject to a 0% tax rate. In the year 2012, the revenue code allowed percentage deduction of expenses at 70% in relation to "contracting" and 60-80% in relation to "business and other" income 40 (8)) without evidence of actual expenses. The percentage deduction allowed for these incomes in 2017 has been reduced to 60%. Source: พระราชกฤษฎีกา ออกตามความในประมวลรัษฎากรว่าด้วยการกำหนดค่าใช้จ่ายที่ยอมให้หักจากเงินได้พึงประเมิน (ฉบับที่ 629) พ.ศ.2560

salary of 2.4, 3.0 and 3.6 million baht respectively. Top executive salaries in the business sector would be higher[8], especially in banking and finance.

But neither the income level nor the structure of income sources shown in Table 5.1 represent the real picture of the top 1 percent of Thailand's population, who are mostly businessmen and their family members, executives in big business corporations and high bureaucrats. These groups receive income from many sources and unearned income from investments of various types is an important part of their income. But dividends and interest incomes are not well covered in the RD sample data set for the reason advanced above and there is little or no reporting of income from abroad or capital gains on shares and other financial assets. Yet evidence from other studies and datasets indicates that wealth is highly concentrated implying that investment income and rents are important sources of income for the relatively well off and especially for the top 1 percent.

One picture of wealth and income at the top is provided by data on the income of 220 members of the national legislative assembly (NLA) declared to the National Counter Corruption Commission in 2014. While the returns were not verified, assembly members risked being disqualified for false returns. Most of the 220 assembly members were high-level bureaucrats and military officers with some business executives or reputable business owners. This was a highly privileged segment and may not be representative of the 200,000 persons in the top 1%. Nevertheless the sources and composition of income of this sample give an indication of the pattern at the top.

The average annual income for all NLA members was 5.5 million baht, which is much more than the average gross income of the top 600 in the tax sample. In the NLA dataset, salary accounted for 35.3 percent of total income, and allowances and fees for 19.5 percent, making a total of 54.8 percent for "employment income" compared to 87 percent in the tax data. Dividends and interest income accounted for 35.8 percent and rents 1.7 percent (see Table 5.2).

Table 5.2 Yearly Income of 220 National Legislative Assembly members, 2014

	Average income (Baht)	*(%)*
All members		
Salary etc	1,892,402	35.3
Meeting Allowances and fees	1,041,709	19.5
Interest income	392,887	7.3
Rent income	90,010	1.7
Dividends	1,524,536	28.5
Other	413,891	7.7
Total	5,355,433	100.0

[8] For top executives in the top 100 firms listed in the Stock Exchange of Thailand (SET), annual salary could be as high as 20-30 million baht.

	Average income (Baht)	*(%)*
Business only (13 members)		
Salary etc	5,379,295	14.4
Meeting Allowances and fees	3,712,182	9.9
Interest income	4,018,599	10.8
Rent income	649,846	1.7
Dividends	23,168,443	62.1
Other	384,615	1.0
Total	37,312,980	100.0

Source: Pasuk Phongpaichit, 2016, Table 5. The source for data in this table is the National Counter Corruption Commission. ตรวจสอบบัญชีทรัพย์สินหมดได้.สนช หนี้สิน/ http://www.nacc.go.th/nacc_asset_legis.php (site accessed in 2016)

Table 5.2 also shows the yearly income of 13 business members of the NLA. Their average income was 37.3 million baht or about seven times the average for all 220 members. The composition of their income sources is very striking. Employment income was only 25.3 percent (salary plus meeting allowances and fees); dividends and interest income shot up to 72.9 percent; while rent was only 1.7 percent.

Another relevant source is the analysis by Kobsak (2013) of data from socio-economic surveys conducted by the NSO for 2011. He found that the top 1 percent of income-earners received around 30 percent of their total income from dividends, rent and interest, while the next 2-5 percent received much less. As a result, around half of total income from dividends and interest in the country accrued to the top 1 percent.

These data confirm that the income tax dataset greatly underestimates unearned income at the top.

In the National Accounts for 2012, total investment income of households is estimated at around 700 billion baht. If half of this accrued to the top 1 percent of households, as suggested by Kobsak's analysis, this would mean an average 3.5 million baht per household, compared with 0.2 million baht reported in Table 1. After adjusting for this, the average total income of the top 600 in the RD sample would rise to around 6 million baht, with a little over half derived from unearned income.

This estimate is still on the low side as it excludes capital gains which are a major source of wealth as the economy develops and the revised estimate of unearned income does not correct for underestimation of income from business and contracting or professional fees.

In view of the evidence above, we are inclined to think that the average net income of the top 1 percent estimated from the 0.3 percent sample from the RD data set underestimates the income of the top 1 percent of Thailand and that the structure of income sources of the top 1 percent may look more like that of the NLA members in Table 2 above. In other words while the RD tax data set has more or less covered employment income in the top taxpayer population pretty adequately, the same thing cannot be said about unearned income and other business income of top income

earners whose tax forms may or may not be found in the top 1% ranked by reported net income.

3. The top 1 percent and tax due

Average tax due on the top 600 RD sample forms was 514,793 baht per form, or 20.2 percent of net income (gross income after deduction of expenses). This is much lower than the top marginal tax rate of 35 percent, because deductible allowances are quite generous and there is a further tax-free band and several lower-rate bands before the top rate is reached. Nevertheless tax assessed on the top 600 sample forms accounted for no less than 60% of total tax assessed on the full sample of 29,246 forms while the majority of forms on which tax was payable had small assessments of less than 15,000 Baht each (equivalent to a deduction of 1,250 Baht per month).

This demonstrates that aside from WHT on interest and dividends, the PIT system has little impact on all but a rather small group of high salary-earners. One implication is that the tax-paying group is currently too small to carry much weight. As the need for social spending and public services and amenities continues to put pressure on the budget, a choice may eventually have to be made between extending the tax base to bring in higher PIT revenue or increasing VAT and other indirect taxes that push up prices and take money from people and families who can least afford to pay. The case for a broadly-based PIT has to convince a wider public.

4. Discussion and suggestions

Although the RD sample tax data set may provide a reasonably good picture of employment income, it does not provide a full picture of incomes for the top 1 percent. Perhaps this should be corrected by making it compulsory to report income from all sources, domestic or external, whether paid in cash or through the banking system.

It is evident that there are several weak points in the reporting and assessment of income for tax purposes. Since the objectives of increased coverage and assessment go beyond the top 1% we conclude this note with some observations on aspects of the existing system that contribute to under-reporting and under-assessment and provide the motive for RD's ongoing work to adjust regulations and improve compliance.

Reporting of fees, rents and business income

As of August 2017 the RD has 819 offices who all over the country with two offices in some large districts (Amphur). Therefore the RD is increasingly able to track and investigate non-compliance on a nation-wide basis, but always subject to the current revenue code and laws regarding disclosure of information.

For rent income received by individuals and unregistered businesses the RD has no easy way of checking. Most renting by landlords in the informal sector is done by word of mouth and on trust. Renters who require a contract are likely to be asked to pay a higher rental charge.

Self-employed individuals who are hired by registered companies that deduct withholding tax when payment is made can be crossed checked by the RD. But if they

provide services to other individuals and unregistered businesses there is no way to check the income they receive. [9]

Vendors in open-air markets who are seen to have significant business can be checked by RD officials and the officials can require the traders and their banks to supply relevant information and documents such as bank accounts for inspection. If RD officials do not agree with the reported amount of gross income they can revise the estimate, demand additional tax and impose fines.

More recently the RD has introduced various incentives to induce small businesses to register as legal entities and to keep a single set of accounts that can be used to provide information for tax returns and credit applications.

Expense deductions

The assessment of expense deductions for contracting and business income is difficult because expenses vary hugely depending on the type of business and employment status of the people involved. Nevertheless it seems likely that current rules that allow self-employed, professionals and other employers with unincorporated business to claim substantial expenses as a percentage of gross income without additional documentation are over-generous in many cases.

For non-business income including income from employment, there is a ceiling on the absolute amount of expenses that may be deducted and for some items such as dividend income, no deductions are allowed. For business incomes, expenses may be calculated at varying percentage rates for different activities. Before January 2017, these ranged from 10% for the rent of assets other than buildings, agricultural land, non-agricultural land, and vehicles to 70% for contracting, 80-88 % for activities such as fishing, agricultural processing, rice milling, salt farms and 92% for sales of immoveable assets like land under less than one-year ownership.

From January 2017, the maximum percentage deduction for contracting and other business incomes has been reduced to 60 percent of gross income.[10] If tax filers wish to claim expenses above these levels, they must be ready to provide proof in the form of receipts. The RD has the power to operate spot checks within 2 years. If the check discovers any discrepancy, any deduction above the ceiling rate is forfeit, and additional tax may be imposed together with a fine. Hitherto businessmen who claimed in excess of standard percentage deduction rates were few and well known to the RD. As the standard deduction is reduced it may be expected that more filers will seek to justify higher expenses deductions but they will have to be ready to undergo spot checks and provide documentary evidence.[11]

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[9] Small businesses such as market traders with annual gross income less than one million baht have the option of paying 5 baht tax for every 1000 baht gross income - a maximum of 50,000 Baht. There are not many small vendors who are assessed this way. The most likely reason is that they pay less tax with a standard percentage assessment of expenses and the normal allowances and stepped tax bands.

[10] See footnote 6 earlier for reference to the amendment of the revenue code in 2017.

[11] In countries that maintain income tax systems with high coverage, revenue authorities have developed sophisticated profiling systems to identify under-reporting or fraudulent expense claims. Tax accountants play an important intermediary function in helping taxpayers to file returns that are accepted by the revenue authority and do not attract onerous investigation.

Conclusions

Two suggestions for improving the PIT system emerge from this investigation. First, the RD should make it compulsory for high income people to report property income and overseas income and require people who receive fees, rents in cash to keep accounts, issue receipts and keep copies for inspection. Second, for the RD to make more accurate assessment of expenses, profiles for different types of business based on accounts submitted and/or cases investigated, should be kept, to assist in monitoring claims.

These suggestions may help the RD to collect more income tax without having to increase tax rates.

As for the issue of income concentration among the top 1 percent discussed in the introduction, a suggestion is that the RD should be careful about reducing the marginal tax rates if it wishes to stop income inequality worsening. This applies not only to personal income tax but also to taxes on property and inheritance taxes.

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Appendix 5.1

Strengths and weaknesses of the PIT sample provided by the Revenue Department, Ministry of Finance, Thailand

The sample

The is the first time since the introduction of the personal income tax in Thailand in 1932, that the Revenue Department provided a sample data set from the tax returns for personal income tax for any researcher or institution outside the Ministry of Finance.

RD provided separate 0.3% samples of PND90 and PND91 returns for 2012 as recorded in the department's databases, selected from a total of 2,244,006 records (PND90) and 7,506,923 records (PND91). The records were sorted by province based on the taxpayer's contact address and a separate 0.3% sample was selected randomly from records for each province.

The sample records provided for analysis by the researchers have been 'cleaned' by RD and include 63 fields (columns) for PND90 and 46 fields (columns) for PND91. The information provided for each record includes amounts of gross income, income after deduction of exemptions and expenses, allowances, income after deduction of allowances, contributions and donations, taxable income, tax credits and tax due with totals by type of income, allowance and donation distinguished on the tax form.

To accompany the sample records RD provided files with record counts and summary statistics (means, standard deviations and variances) by province for each column in the complete set of records in the department's databases together with the same statistics for records in the 0.3% samples and a data dictionary describing information in each column.

Strengths

The clear format and presentation of the sample records with comparative summary statistics for the full databases gives researchers grounds for confidence that the samples provide a realistic picture of the pattern of income, expenses, allowances and tax assessments in the country as a whole and the summary statistics by province imply a high degree of uniformity in tax administration when local differences in the level of income and pattern of economic activity are taken into account.

The information provided should largely "demystify" issues concerning the personal income tax system including the operation of rules for deduction of expenses, amounts claimed for different types of allowances and donations and their impact on taxable income and tax due. The samples provide an open-ended dataset for examination of the variety of context and behaviours that determine the impact of the PIT system on people with different levels and sources of income who may qualify for different levels of expense deduction and claim different allowances. In this sense the sample provides a view of the tax system in practice as opposed to the theory enshrined in the tax code and ministerial regulations.

Weaknesses

Identification of taxpayer records by province together with 'cleaning' appears to make the sample less representative at the top end (high-income taxpayers). This is a common problem for all samples where distribution is strongly skewed towards the top end (e.g. SES, labour force survey) making it difficult to provide detailed information for people at the top.

The 0.3% sample is not large enough to give reliable province-level breakdown for many items as can readily be ascertained by comparing summary statistics by province with statistics from the full database that accompany the samples provided by RD.

There are large discrepancies at the national level between mean values in the full database and mean values in the sample for several PND90 items including reported income from employment 40(1,2), interest and dividend income 40(4), income of contractors 40(7), other business income 40(8) as well as total tax credits. These result in under-estimation of tax due by nearly Baht 18 billion or 28% if the sample mean is scaled up by the sampling ratio (the national total in the full database for PND90 forms is Baht 63.5 billion as compared with the scaled-up sample figure of 45.8 billion for the same forms).

Similar discrepancies are found in the province samples for these items.

One other significant issue is the grouping of different types of income under 40(8) for which amounts of gross income and income after deduction of expenses are combined in the research data provided by RD. This means the sample cannot be used to examine the impact of rules applying to different types of income grouped together in this category.

Possible improvements

1. Remove taxpayer location (province) from sample records to improve top-end coverage. Although data by province are very useful for research it is sufficient and more reliable to present the information in the form of summary statistics derived from the full database that accompany the sample.

2. Investigate and clarify discrepancies between averages for the full dataset and averages for the sample in cases where these are substantial (e.g. differences of more than Baht 10 billion exceeding 5% of the national figure).

3. Provide breakdown by income type for income before and after expenses reported under 40(8).

4. Analyse the excess of tax receipts over assessments recorded on PND90 and PND91 forms (e.g. tax credits not included on forms or tax credits in excess of tax liability that are not refunded).