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Abstract

Thailand adopted a value added tax in 1992. This article describes the broad nature of the tax, its administration and its economic effects in that country.

Keywords

value added tax, consumption tax, Thailand

VALUE ADDED TAX IN THAILAND



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Thailand adopted a value added tax in 1992. This article describes the broad nature of the tax, its administration and its economic effects in that country.

Value-added tax (VAT) was introduced in Thailand on 1 January 1992 as a replacement for business tax. VAT is considered as being equivalent to a "consumption tax". The following reasons motivated Thailand to replace the business tax system with VAT:

1 There have been rapid changes in Thailand's economy and lifestyles. For example, the growth of industrial sectors has led to changes on strategy and planning. It was, therefore, important for the Thai government to adjust or amend the existing laws and legal system to be consistent with the various changes.

2 Since Thailand had become a member of GATT,¹ the legal system had to change to comply with its new international commitments. "The VAT will certainly help improve Thailand's exports and will also be in line with the framework of the GATT regulations", commented the Finance Minister²

3 The Thai business tax system, introduced in 1961, was a major obstacle to Thailand's progress. VAT was considered an appropriate method to replace the business tax system. For example:

- Under the business tax system, taxes were charged on raw materials as well as on finished goods and on goods for operating. This caused double taxation and high operating costs of production and it was an obstacle to expanding businesses.
- The business tax system was occasionally confusing because 21 business tax rates were then charged on different types of goods and services.
- The business tax system did not foster importation. Although exported goods were normally exempted from export taxes, the

1 GATT means General Agreement on Tariffs and Trade.

business tax was still hidden in the operating cost of products through a tax on raw materials. The Government believed that the VAT system would help relieve this problem. "Our industrial production would bear lower costs under VAT while nobody will be able to accuse Thailand of subsidising its exports anymore."³

- Unlike a VAT system, there were insufficient checks and balances in the business tax system to track down tax evaders and businesses underpaying taxes.

Upon its introduction, VAT became a hot topic, not only for finance and commerce in Thailand, but for all business sectors. Many people complained that Thailand was not yet ready for the VAT and the government should have postponed its implementation and taken more time to educate the public before introducing it. In the second week of January 1992, the government ran a two-hour talk show during prime time on every television station and featured the government authorities concerned. The program was intended to educate the public and to provide immediate answers to questions telephoned to the television stations by the audience.

Framework of VAT

VAT in Thailand is charged on sales of goods or services which are related to businesses or professions. The VAT rate for most of the goods and services is set at 7%. Although the law passed in December 1991 had set the maximum VAT rate at 10%, the Finance Minister later fixed it at 7%. VAT is absorbed by end consumers, but is charged or collected on the increased value or price at each stage of the goods or services chain. The increased value or price at each stage can be calculated by comparing purchasing tax and selling tax.

The Purchasing Tax means the tax which a vendor charges on the value of goods or services sold by him to his purchaser. A VAT tax invoice is issued to his purchaser to show that the Purchasing Tax has been paid. The Selling Tax means the tax which is paid when a person purchases goods or services and VAT has already been charged on top of the value of such goods and services. A tax invoice is given to him by the purchaser to show that Selling Tax has already been paid.⁴

For example, if Company A purchases a good at US\$100 from Company B, VAT at a rate of 7% will be charged on US\$100. Company A has then to pay Company B US\$107. The US\$7 will be called "Purchasing Tax". If, thereafter, Company A sells the good for a price of US\$120, Company A will have to charge its purchaser 7% VAT on US\$120, and the purchaser will pay the total price (including VAT) of US\$128.40. The US\$8.40 will be called "Selling Tax". Company A shall be considered a

2 Dr Suthico Singhasanch, Finance Minister during November 1991 – early 1992.

3 Suthic, "Tax restriction soon to be completed" *Bangkok Post* 19 November 1991, p 5.

4 *Taxation Document* (1991) The Revenue Department, Vol 122, Year No 11, p 51.

“trader” and is required by law to submit the VAT amount to a relevant revenue authority (normally by the 15th day of the following month). In this particular example, the tax which Company A has to submit to the authority is the difference between the purchasing and selling tax, which is US\$1.40. If Company A sold the good at the price of US\$100, which was the same as the price it paid for the good, there would be no VAT.

Businesses were required to submit the first VAT tax forms on 15 February 1992. The traders who, under the law, are on zero rate must also hand in tax credit forms every month.

Under the VAT, those earning between Baht 750,000 (US\$26,000) and Baht 1,200,00 (US\$48,000) were allowed to choose either to pay tax under the VAT or to pay a lump sum business tax at a rate of 1.5% of sales. Those wishing to join the VAT could have registered themselves as “the registered traders” by 31 January 1992.

Activities which are subject to VAT

There are four major activities which are subject to VAT:

- sales of goods
- sales of services
- importation
- exportation.⁵

VAT is, however, not collected on some types of businesses. The Revenue Department prescribed the list of taxes for some specific business activities:

LIST OF THE SPECIFIC BUSINESS ACTIVITIES	
Business	Tax Rate
1 Banking, finance credit foncier, securities and business operations similar to Commercial Banks.	3%
2 Insurance	
. Life insurance	2.5%
. Non-Life insurance	3%
3 Pawnshop	2.5%
4 Sales of immovable property	3%
5 Sales of securities	exempted

Gross income incurred from those specific business activities is subject to tax at the rates and under the methods which were described in the previous business tax system.

⁵ VAT and Taxes for Specific Business Activities (Nardilok, Arporn 1992) pp 1-10.

Who is responsible for VAT?

1 Traders

Under s 82 of the Act Amending the Revenue Code (No 30) 1991, the following persons are considered as “traders” and should have registered themselves as “VAT traders”.

The VAT traders who are normally required to pay VAT are:

- a) manufacturers, importers, exporters, wholesalers and persons who sell goods for their business or profession;
- b) persons who provide services for a business or profession.

2 Representatives of traders

In the case where a representative of any foreign trader in Thailand sells products or provides services on behalf of such foreign trader in Thailand, its representative in Thailand is required by law to pay VAT.

In the case of a merger of business, the new owner of the business after merging is required to pay VAT. In the case of a business transfer, both transferor and transferee are responsible for VAT equally.

VAT rates

Zero rates

Export sales, services used by overseas parties, sales of goods or services to the government, and others which may be prescribed by the regulations, are subject to a zero VAT rate.

1.5% rate

Small traders with an annual revenue of over Baht 600,000 (US\$24,000), but not over Baht 1,200,000 (US\$48,000), are subject to 1.5% VAT.

7% rate

Except as specified above, all other kinds of sales of goods and services, including importation of goods, are subject to 7% VAT.

Major tax bases

The major bases from which VAT are calculated are:

1 Sales of goods and services

VAT will be calculated from sales value, plus excise tax (if any).

2 Export sales

VAT will be calculated from FOB price, plus excise tax, plus other taxes or fees (if any).

3 Import of goods

VAT will be calculated from CIF value, plus excise tax, plus import duties and other taxes and fees (if any).

4 International transportation

Carriage of goods: VAT will be calculated from freight value, plus fees and other benefits in respect of such carriage of goods out of Thailand, whether such value and/or benefit is collected inside or outside Thailand.

Carriage of passengers: VAT will be calculated from fares, plus fees and other benefits collected in Thailand.

Tax credits and refunds

As mentioned earlier, if the selling tax collected by a registered trader from its buyer of goods or services exceeds the purchasing tax, the trader submits the excess to the Revenue authority. However, if the selling tax exceeds the purchasing tax paid by such registered trader to another registered trader, the excess may either be used as a credit against VAT or as a tax refund from the Revenue Department. A claim for a tax refund must be made within three years. An interest rate of 1% will be paid to a trader, if the tax has not been refunded within three months after applying. All traders are required to have evidence of tax invoices for the credits each month.

The Revenue officials promised to process the tax credit/rebates within one month. However, due to insufficient numbers of officials, the tax credit process has been delayed and the Revenue Department has been criticised by the traders. Many businessmen are still unsure of the type of goods and services on which VAT should be charged and at which rate. As a result, accounting advice is in heavy demand.

Sanctions under the VAT

Tax evasion is treated seriously under the law: "Persons evading or attempting to evade VAT are subject to a term of imprisonment from three months to seven years and a fine from Baht 2000 (US\$80) to Baht 200,000 (US\$8000)".⁶ Any persons who are required to register as "registered traders" under the VAT, but fail to do so pursuant to the period prescribed by the Revenue Department, are subject to a term of imprisonment not to exceed one month or a fine not to exceed Baht 5000 (US\$200) or both.⁷

A VAT registered trader must know the requirements under the law to be able to issue proper tax invoices and to ensure proper use of tax invoices. Failure to do so will result in penalties and criminal liabilities. The assessment officer is empowered to prepare a tax return for the taxpayer, if it is not properly prepared, and will also adjust, calculate and assess tax impositions and penalties. By law, the time period in which the assessment may be prepared is limited to two years from the last date of filing of a tax return, if it is filed on time, and is not to exceed 10 years from the last date for filing, if not filed on time.

Effects from VAT introduction

1 Product dumping

Before introducing VAT, many people had insufficient understanding about the VAT system. Some businesses had decided to dump their products onto markets because they believed prices would decline when VAT was introduced, due to a lower tax burden. Since the calculation of taxes under the existing business tax system and the VAT system would be different, the businessmen wanted, before the introduction of VAT, to sell their stocks to avoid complications in calculating tax under the two different systems. The dumping of goods caused excess liquidity in the money market. This forced the money market to adjust and commercial banks had to cut their interest rates.⁸

The Revenue Department came up with a scheme to reduce the tax burden on businesses. The stocks which were purchased during the two-month period would be eligible for tax credits, if business tax had been paid on them and the stocks had not been sold by 1 January 1992, when VAT would be introduced.⁹

2 Price rises led to price control

Due to insufficient understanding at the early stage of VAT implementation, most businesses increased their product and service value

6 Section 90/4 of the Revenue Code (No 30) 1991.

7 Section 90/2 of the Revenue Code (No 30) 1991.

8 "VAT may lead to interest rate cut" *The Nation* 8 October 1992, p 21.

9 "Tax credit system for business (inefficient)" *Bangkok Post* 2 November 1992, p 14.

by adding 7% VAT on the price of each item or service, although some of their products or services were subject to the zero rate. Moreover, they failed to deduct the business tax from their price after adding VAT. The consumers then had to pay both VAT and business taxes. Prices for some other major products were increased soon after implementation. Amaret Sila-on, Commerce Minister, said to the press on 15 January 1992 that the "live pig price has raised from Baht 30.75 per kilogram to Baht 32 and retail pork prices from Baht 66 to Baht 67". It was also reported that the prices of pharmaceutical products had risen by up to 5%. The Government then announced price control on some items for a certain period. The Ministry of Commerce also required on 21 January 1992 that every entrepreneur put price tags on all goods offered for sale to the public. However, if any traders were then able to prove that their tax burden was higher than the business tax, the Ministry of Commerce would approve the price raises.¹⁰

3 Reduction of consignment sales

Department stores, for example, had taken steps to minimise the consignment sales system, to avoid a tax burden disadvantage in the VAT system. Consignment sales were predicted by Mr Suchart Chaovisit, Deputy Director-General of the Revenue Department, to continue to be used for only some types of goods, such as large high price items which would still not be popular for outright sales.¹¹

4 Shortening of the distribution chain

It is expected that the distribution system will tend to be shorter in the future, because the more companies there are involved in distribution, the greater the tax burden.

5 Wipe-out of market arms

Businesses will tend to minimise the use of so-called marketing arms, unless they can ensure that marketing arms are cost-effective.¹²

6 Tax rate advantages

"In terms of tax rate, several sectors gain benefit. For example, hotels pay a lower rate of 7% instead of 11% business tax for income from rooms, while restaurants are subject to 7% tax instead of 8.25% business tax."¹³ Some chemical products, where the business tax was 1.5%, are required to pay 7% VAT instead. This indicates that unfair tax impositions cannot be

10 "VAT : Facts from BBL" *The Nation* 22 January 1992, p B 1.

11 VAT seminar paper, Tax Education Centre, 15 November 1992.

12 VAT seminar paper, Tax Education Centre, 15 November 1992.

13 "VAT will change way business is conducted" *The Nation* 16 November 1991, p 12.

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eliminated, since some other types of businesses are subject to a higher VAT rate or to a specific business activities' rate.

7 Tax burdens

Many businesses have claimed that the VAT system has caused their businesses to shoulder a higher tax burden. Although they can credit all purchasing tax, not all of this can be refunded. For example:

- The General Insurance Association announced on 27 April 1992 that "the study showed that since VAT had been introduced at the beginning of this year, the industry had been burdened with additional taxes of about Baht 1000m (US\$40m)". The group urged the government to introduce more measures to support insurance businesses. The insurance agents claimed that they would have to shoulder a tax burden of Baht 1 billion per year as a result of the fact that they cannot seek tax credits on expenses charged by vehicle garages, for instance.¹⁴
- Shrimp feed manufacturing also claimed that their costs have climbed 3% under the VAT. "Some ingredients used to produce shrimp feed, including corn gluten meal and wheat gluten meal were taxed under VAT".¹⁵
- The Thai Gem and Jewellery Traders' Association also said "the gem and jewellery industry has been adversely affected by VAT, especially with regard to raw material imports and finished product material exports."

The Board of Trade then urged the government to consider easing the burden of exporters who do not import raw materials on their own and thus could not claim VAT on imports when shipping products overseas.¹⁶

- The Port Authority of Thailand (PAT) is still uneasy over the government's policy that the PAT has to issue tax invoices to port users. Although it does not collect VAT from customers, it has to issue a tax invoice of Baht 7 and a receipt of Baht 93, although the port service fee is Baht 100, excluding VAT. Port users, thus, can submit the invoice to the Revenue Department for a refund.¹⁷

The relevant authorities are trying to solve the major problems with Thailand's VAT. Some of them have been solved or eliminated. More free education concerning the VAT system has been provided to people in the provinces of Thailand and the government has instituted a number of measures to prevent unnecessary price inflation.

14 "Insurers eye VAT regime for industry to ease load" *The Nation* 27 April 1992, p 32.

15 "Shrimp food cost up 3% under VAT, claims CP" *Business Post*, *Bangkok Post* 9 March 1992, p 3.

16 "VAT-hit industry proposes ways to solve problems", *Bangkok Post* 7 March 1992, p 28.