LEGAL SOLUTIONS TO THE CONFLICT BETWEEN EQUITY OF INCOME REDISTRIBUTION AND ECONOMIC EFFICIENCY OF TAXATION IN RELATION TO PERSONAL INCOME TAX LAW IN THAILAND AND THE UNITED KINGDOM

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Appendix I to Chapter One

The following selected statistics show that there are still rich and poor and a wide income gap between them in the UK and Thailand. In relation to the UK,

“In 1967 the richest 10 per cent had an income almost 10 times that of the poorest band. In 1978, the ratio was just more than 10, but in 1988, it was almost 18.”

In 2001-2002, “the distribution of ‘original’ income - before any state intervention - is highly unequal, with the average income of the top quintile group about 18 times greater than that of the bottom quintile group.”

Meanwhile, the distribution of original income in Thailand is also highly unequal. In 2000, the average income of the top decile group was about 28 times greater than that of the bottom decile group. Additionally, the income of the bottom decile group decreased from 2.4% in 1998 to 2.2% in 2000, and the 2-7 decile group also experienced a decrease in income. By contrast, the income of the top decile group increased from 33.8% in 1998 to 34.6% in 2000. The National Statistical Office of Thailand concludes that “the inequality of household income distribution nationwide has increased.”

Income inequality probably results from differences between the individuals involved in the market system. This includes, but is not limited to, initial endowments, earning opportunities, working and saving commitment, and the distinctive character of individuals.

Regarding initial endowments, these are described as inherited rights to property as well as innate skills and capabilities. Individuals who have inherited wealth or ability possibly have more earning chances than others.

Individuals who have more educational, training and job opportunities can select and get good jobs and have better earning opportunities than those who have had less.

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1719 Marshall, op.cit. (note31), p.358
1722 ibid.p.13
1723 ibid.p.13
1724 Sandford, op.cit.(note19), pp.122 and 126
Concerning working and saving commitment, if two people have similar qualifications, one who dedicates his/her lifetime to working harder and to saving larger amounts than another will receive more income and accumulate more wealth. Afterwards, savings or wealth can be invested in various forms to earn more income.

Finally, the distinctive character of individuals includes differences in gender, age, race, or handicap. The elderly and the disabled tend to be unemployed. Older pensioners may be less willing or able to work because of their age. Additionally, it is argued that "inequality may also arise because of overt discrimination based on sex or race."

\[^{1725}\text{Brown and Jackson, op.cit.(note2), p.315; and Sandford, op.cit.(note19), p.125}^{1726}\text{The Office for National Statistics, op.cit.(note33), 96}^{1727}\text{Brown and Jackson, op.cit.(note2), p.317}^{391}\]
Appendix II to Chapter One

Advanced concept of income redistribution

The basic concept of income redistribution is that money is compulsorily taken by the government from the rich and given to the poor. Under the public-finance system (tax and expenditure measures), a government provides the poor with more state benefits through public expenditure financed by taxes on the rich. This system is therefore consistent with the basic concept of redistribution. However, even if most governments have pursued a redistribution policy through this system for many years, there are still low-income groups and an ongoing income gap. Is there any other advanced concept of income redistribution which governments should apply to the public-finance system?

As a result of redistribution through the public-finance system in earlier years, by now there should have been a smaller number of low-income groups and a narrower income gap. As Barna notes, “all taxes are paid [out] of incomes [of the rich] and all public expenditure increases income [of the poor].”\textsuperscript{1728} However, the fact is that there are rich and there are poor. For example, the wide gap of original income before government intervention through the public-finance system still exists in British society.

As we have seen in Appendix I to Chapter One, in the UK, in 2001-2002 before government intervention, the original income of the top quintile group is about 18 times greater than that of the bottom quintile group. After government intervention by taxation and provision of benefits, the ratio of average final income between these two groups is reduced to 4:1.\textsuperscript{1729} However, in the following year (2002-2003) before government intervention, the difference of original income between these two groups remains great, i.e. the original income of the top quintile group is about 15 times greater than that of the bottom quintile group.\textsuperscript{1730}

The above statistics reflect that recent government intervention through the public-finance system has had little impact on the creation of earning opportunities for low-income groups. Government intervention through the public-finance system

\begin{itemize}
\item \textsuperscript{1728} Barna, op.cit.(note16), p.13
\item \textsuperscript{1729} The Office for National Statistics, op.cit.(note1720), p.83
\item \textsuperscript{1730} The Office for National Statistics, Social Trends /No 35/2005 Edition, Carol Summerfield and Baljit Gill, eds. (Hampshire: Palgrave Macmillan, 2005), 75.
\end{itemize}
has simply given the money raised to the poor to help them to maintain their lives on a yearly basis. Likewise, the UK government's redistribution policy has placed a heavy weight on the concept of redistribution 'ex-post'. To achieve the goal of income redistribution, the two concepts of redistribution 'ex-ante' and redistribution 'ex-post' must be weighed up equally in making a redistribution policy.

Cowell defines redistribution 'ex-ante' and redistribution 'ex-post' as follows:

"Redistribution 'ex-ante'- the means of reorganizing the opportunities for creating income and accumulating wealth." 1731 Meanwhile, "redistribution 'ex-post' - the reallocation of income or wealth that results from the economic processes of production and exchange, whatever individual opportunities may have been." 1732

State provision of more educational and training opportunities for low-income groups is an example of the application of the concept of redistribution 'ex-ante.' More educational and training opportunities will boost earning opportunities and thus reduce income inequality. 1733

To reduce income inequality, a redistribution policy through government expenditure should be equally focused on both benefits for supporting the cost of living of the poor in the present and for reorganizing opportunities for creating income for the poor in the future. Employment schemes and lifelong learning and training programmes will help to raise the incomes of poor individuals and households indirectly. 1734

1731 Cowell, op.cit.(note18), p.110
1732 ibid.p.109
1733 ibid.p.110
1734 The Commission on Taxation and Citizenship, op.cit.(note22), pp.230-231
Appendix III to Chapter One

Legitimacy of government in taxation

There is a question arising as to whether or not government intervention through taxation is legitimate.

Most people pay taxes because it is an enforced duty and in the hope of receiving better public services.\(^{1735}\) Given this, it is believed that few people pay taxes to help others in need. Thus, if the government did not intervene through taxation, we could not rely heavily on voluntary redistribution by donations or other similar means. It is therefore legitimate for the government to intervene in income redistribution through taxation.

However, Nozick opposes compulsory taxation on the grounds that this may violate some people’s rights.\(^{1736}\) Collard refers to and emphasizes the ‘rights’ theory of Nozick as follows:

“Nozick has argued that the individual is entitled to income which he has legitimately earned (or which his forbears had legitimately earned and voluntarily transferred to him). Compulsory redistribution has therefore no place on the agenda, a view which, if taken seriously, would constitute the most serious limit of all to redistribution. The only legitimate redistribution would then be voluntary.”\(^{1737}\)

Despite Nozick’s opposition, this research would affirm that we could not rely on voluntary redistribution, and that government intervention through taxation is legitimate.

Firstly, the government is authorized as a representative of the people to govern and take responsibility for the welfare of all people in a state. Additionally, Nightingale claims that:

“Government often takes on a paternalistic role by providing ‘merit’ goods, e.g. health and education. Merit goods, unlike public goods, can be provided privately, but if left completely to market forces merit goods would be under consumed, and so there is some merit in the state providing such goods as

\(^{1737}\) Collard, *op.cit.* (note 22), p.1
everyone benefits from living in a healthy and educated society, i.e. there are external benefits in the provision of merit goods."\textsuperscript{1738}

Secondly, people in the same community deserve equal earning opportunities. As discussed earlier, there are differences in educational and training opportunities etc. Because of this, equal earning opportunities are unlikely to come about without government intervention.

Thirdly, Hockley points out that redistribution can protect against "disease, riots and civil disorders emanating from the poor."\textsuperscript{1739} Accordingly, compulsory redistribution through taxation helps indirectly protect the benefits of those who prefer to work harder and of high-income groups from such disorganization.

Finally, taxation is not intended to expropriate all that people earn. The level of tax collection primarily rests on the demands of public spending each year.\textsuperscript{1740} That is, the level of taxation depends on social and economic needs and the government's policy in each different period.

\textsuperscript{1738} Nightingale, op.cit.(note65), pp.4-5
\textsuperscript{1739} Hockley, op.cit.(note315), p.104
\textsuperscript{1740} Sandford, op.cit.(note195), p.4
Appendix IV to Chapter One

Progressive taxation versus public expenditure

There is an argument referred to in Bagchi that “the tax system simply cannot achieve redistribution [...] leave that to expenditure policies.” Additionally, the World Bank notes, “only rapid economic growth and the appropriate use of public expenditure policies, including income transfers and targeted poverty alleviation measures, can raise incomes.” However, as discussed earlier, the tax system, especially progressive taxation, can help achieve redistribution.

Hence, the question arises between the systems of progressive taxation and public expenditure, as to which system the government should pay more attention in the redistributive process. To answer this question, the advantages and disadvantages of both systems will be considered.

The advantage of public expenditure is that it provides state benefits for the poor to support the costs of living (redistribution ‘ex-post’). Furthermore, if the government applied the concept of redistribution ‘ex-ante’, earning opportunities for the poor would be created and thus reduce inequality in the long term.

Regarding the disadvantages of public expenditure, the government (through expenditure policies) may prefer one group to another. Consequently, expenditure policies will fail to achieve the redistributive objective. Furthermore, “expenditure programs are limited in their provisions for the poor, especially in developing countries where social security does not yet exist.” Moreover, “there are the problems of leakage and burden on the budget.” Finally, public expenditure cannot prevent the excessive accumulation of wealth by the wealthy, thereby increasing inequality.

Conversely, progressive taxation can discourage the wealthy from greatly increasing their income in two ways. Firstly, it takes a higher proportion of income in tax as income rises. Secondly, tax incidence falls directly on taxpayers who are required to pay. This is because most direct taxes are progressive: “the more direct

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1742 The World Bank, op.cit. (note112), p.26
1743 James and Nobes, op.cit. (note5), p.43
1744 Bagchi, op.cit. (note1741), p.246
1745 ibid. p.246
the tax, the more difficult it is to shift it to someone else.\textsuperscript{1746} These ways reduce inequality.

Furthermore, the more progressive the structure is, the less unequal the distribution of income.\textsuperscript{1747} This is because the more progressive structure (a) takes more income from the rich, and (b) generates more revenue to fund public expenditure. As regards (b), more tax revenue can reduce “the amount by which expenditure must be cut or inflation increased; both cuts in spending and increases in inflation often affect the poor disproportionately.”\textsuperscript{1748}

Although progressive taxation helps reduce inequality, its disadvantage is that it causes economic distortion by interfering with people’s economic decisions. Additionally, “tax structures cannot directly increase the incomes of the poor.”\textsuperscript{1749} However, this disadvantage can be lessened on the following grounds.

There is an argument referred to in Saatchi and Warburton that “the payment of income tax or council tax, even at a low level, is a mark of civic responsibility; an acknowledgement of the cost of government services.”\textsuperscript{1750} Once the poor pay tax, existing inequality is intensified. However, progressive taxation can be made more progressive by not taxing the poor or reducing the tax burden on the poor (e.g. tax-free threshold). When the poor pay less or no tax, they will have more disposable income and may not need state benefits\textsuperscript{1751}, thereby reducing inequality.

From the above, I would not conclude that progressive taxation is better than public expenditure or vice versa for two reasons.

Firstly, both systems have advantages and disadvantages. Secondly, to achieve income redistribution, both lower and upper ends of the income scale must be worked out simultaneously. That is, money on the upper end must be reduced, and money on the lower side must be increased. As we have seen, progressive taxation can affect only the upper end, whereas public expenditure can affect only the lower end.

\textsuperscript{1746} Schnitzer, op.cit.(note22), p.9
\textsuperscript{1747} Dalton, op.cit.(note30), p.93
\textsuperscript{1748} The World Bank, op.cit.(note112), p.26
\textsuperscript{1749} ibid.p.26
\textsuperscript{1750} Saatchi and Warburton, op.cit.(note595), p.11
\textsuperscript{1751} ibid.p.4
Therefore, the government should continue simultaneously to apply both progressive taxation and public expenditure in the redistributive process. This is because under the combined system, the poor receive more in state benefits than they pay in tax, whereas the rich pay more in tax than they receive in state benefits.\textsuperscript{1752} It is confirmed that the combined system is “the obvious, and indeed the most immediately attractive instrument of redistribution.”\textsuperscript{1753}
Appendix I to Chapter Two

It has been found that the single and multiple rate systems can constitute the progressive rate structure because both cause the ATR to rise as income increases. Example 2.1 will illustrate this point.\textsuperscript{1754}

Table A

<table>
<thead>
<tr>
<th>Tax System A</th>
<th>Tax System B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax-free incomes £2,000</td>
<td>Tax-free incomes £1,100</td>
</tr>
<tr>
<td>Tax rate 25%</td>
<td>Tax rate on first £2,000 of taxable income 15%</td>
</tr>
<tr>
<td></td>
<td>Tax rate on next £2,000 20%</td>
</tr>
<tr>
<td></td>
<td>Tax rate on next £2,000 25%</td>
</tr>
<tr>
<td></td>
<td>Tax rate on further income 30%</td>
</tr>
</tbody>
</table>

Table B

<table>
<thead>
<tr>
<th>Different income levels (£)</th>
<th>Tax under System A (£)</th>
<th>Tax under System B (£)</th>
<th>Average tax rates System A (%)</th>
<th>Average tax rates System B (%)</th>
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<tbody>
<tr>
<td>1,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2,000</td>
<td>0</td>
<td>135</td>
<td>0</td>
<td>6.8</td>
</tr>
<tr>
<td>3,000</td>
<td>250</td>
<td>285</td>
<td>8.3</td>
<td>9.5</td>
</tr>
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<td>4,000</td>
<td>500</td>
<td>480</td>
<td>12.5</td>
<td>12.0</td>
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<td>5,000</td>
<td>750</td>
<td>680</td>
<td>15.0</td>
<td>13.6</td>
</tr>
<tr>
<td>6,000</td>
<td>1,000</td>
<td>925</td>
<td>16.7</td>
<td>15.4</td>
</tr>
<tr>
<td>7,000</td>
<td>1,250</td>
<td>1,175</td>
<td>17.9</td>
<td>16.8</td>
</tr>
<tr>
<td>8,000</td>
<td>1,500</td>
<td>1,470</td>
<td>18.8</td>
<td>18.4</td>
</tr>
<tr>
<td>9,000</td>
<td>1,750</td>
<td>1,770</td>
<td>19.4</td>
<td>19.7</td>
</tr>
<tr>
<td>10,000</td>
<td>2,000</td>
<td>2,070</td>
<td>20.0</td>
<td>20.7</td>
</tr>
<tr>
<td>Total</td>
<td>9,000</td>
<td>8,990</td>
<td>16.36</td>
<td>16.35</td>
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</table>

Example 2.1

Table A above shows two tax systems, A and B. System A employs a single rate system. System B employs a multiple rate system. Table B above shows ATRs produced by both systems at different income levels. Sandford remarks, “System A is more progressive than system B over the first half of the income distribution and system B over the second half. It therefore makes no

\textsuperscript{1754} This example is discussed in Sandford. (Sandford, op.cit.\textsuperscript{note195}, p.52.)
sense to say that one is more progressive than other, unless we specify more precisely to which part of the income distribution we refer.”

There are two noteworthy points from the above illustration.

Firstly, if the structure of progressive tax rates is based on a single rate system, it will rely on tax-free income below the tax threshold and one positive rate. These cause the ATR to rise as income increases. Consequently, the structure of progressive tax rates may not always rely on increasing MTRs with higher income. Sandford remarks, “it is thus easy to be misled about the progressiveness of a tax by looking simply at the structure of marginal rates.” Also, Kay and King emphasize, “it is a common error to think that [a progressive tax] means that the marginal rate of tax should also increase with income.”

Secondly, if the structure of progressive tax rates is based on a multiple rate system, it will rely on increasing MTRs on larger taxable incomes. Thus the MTR is always greater than the ATR, causing the ATR to rise as income increases. 

\[^{1755}\text{ibid. p.52}\]
\[^{1756}\text{ibid. p.53}\]
\[^{1757}\text{Kay and King, op.cit.(note60), pp.12-13}\]
\[^{1758}\text{The Commission on Taxation and Citizenship, op.cit.(note22), p.79; James and Nobes, op.cit.(note5), pp.14 and 304; Kay and King, op.cit.(note60), pp.12-13; and Collard, op.cit.(note22), p.6}\]
Appendix II to Chapter Two

Example 2.2

Under the structure of multiple tax rates in Table A below, there is a tax-free allowance of £2,000. This amount represents the earnings level of the lowest-income group. The first £1,000 of taxable income is subject to the 5% MTR. This rate represents the MTR on the earnings of the low-income group. Taxable income between £1,001 and £15,000 is subject to the 15% MTR. Taxable income between £15,001 and £30,000 is subject to the 25% MTR. Finally, all taxable income above £30,000 is subject to the 35% MTR. This rate represents the MTR on the earnings of the highest-income group.

Under this tax-rate structure, the ATRs of people with various income levels will be as shown below.

(a) A person with £2,000 pays no tax.

(b) A person with £3,000 pays no tax on the first £2,000 of his/her total income but pays tax at the 5% MTR on income over £2,000. This will be 5% of £1,000 of taxable income, which is £50.\(^{1759}\) His/her ATR is 1.7%\(^{1760}\) (less than the 5% MTR).

(c) A person with £17,000 pays no tax on the first £2,000 of his/her total income. He/she pays tax at the 5% MTR on the first £1,000 of taxable income, and at the 15% MTR on the next £14,000. The total tax is £2,150.\(^{1761}\) His/her ATR is 12.6%\(^{1762}\) (less than the 15% MTR).

(d) A person with £32,000 pays no tax on the first £2,000 of his/her total income. He/she pays tax at the 5% MTR on the first £1,000 of taxable income, at the 15% MTR on the next £14,000, and at the 25% MTR on the next £15,000. The total tax is £5,900.\(^{1763}\) His/her ATR is 18.4%\(^{1764}\) (less than the 25% MTR).

(e) A person with £100,000 pays no tax on the first £2,000 of his/her total income. He/she pays tax at the 5% MTR on the first £1,000 of taxable income, at the 15% MTR on the next £14,000, at the 25% MTR on the next £15,000, and at the

\[\text{1759} (1,000 \times 0.05)\]
\[\text{1760} (50/3,000)\]
\[\text{1761} (2000x0)+(1,000x0.05)+(14,000x0.15)\]
\[\text{1762} (2,150/17,000)\]
\[\text{1763} (2000x0)+(1,000x0.05)+(14,000x0.15)+(15,000x0.25)\]
\[\text{1764} (5,900/32,000)\]
35% MTR on all taxable income above £30,000. The total tax is £29,700.\textsuperscript{1765} His/her ATR is 29.7\%\textsuperscript{1766} (less than the 35% MTR).

**Table A**

<table>
<thead>
<tr>
<th>Income levels</th>
<th>Types of income</th>
<th>Slice of income (£)</th>
<th>Cumulative income (£)</th>
<th>Marginal tax rates (%)</th>
<th>Tax on each slice of income (£)</th>
<th>Cumulative tax (£)</th>
<th>Average tax rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest income level</td>
<td>Tax-free allowance</td>
<td>2,000</td>
<td>2,000</td>
<td>no</td>
<td>no</td>
<td>No</td>
<td>no</td>
</tr>
<tr>
<td>Low income level</td>
<td>Taxable income</td>
<td>1,000 of taxable income (0-1,000)</td>
<td>1,000</td>
<td>3,000</td>
<td>5</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Middle income level</td>
<td>Taxable income</td>
<td>14,000 of taxable income (1,001-15,000)</td>
<td>14,000</td>
<td>17,000</td>
<td>15</td>
<td>2,100</td>
<td>2,150</td>
</tr>
<tr>
<td>High income level</td>
<td>Taxable income</td>
<td>15,000 of taxable income (15,001-30,000)</td>
<td>15,000</td>
<td>32,000</td>
<td>25</td>
<td>3,750</td>
<td>5,900</td>
</tr>
<tr>
<td>Highest income level</td>
<td>Taxable income</td>
<td>Above 30,000</td>
<td>68,000</td>
<td>100,000</td>
<td>35</td>
<td>23,800</td>
<td>29,700</td>
</tr>
</tbody>
</table>

*Remark:* This percentage is calculated for £100,000 of gross income.

If MTRs are made higher on the earnings of the high- and highest-income groups, there will be a high level of ATRs on the rich. This generates significant vertical redistribution.

From the tax-rate structure in Table A, if the MTR on the next £15,000 of taxable income is raised from 25% to 30%, the ATR of a person with £32,000 will increase from 18.4\% to 20.8\%. Additionally, if the MTR is raised on all taxable

\textsuperscript{1765} (2000x0)+(1,000x0.05)+(14,000x0.15)+(15,000x0.25)+(68,000x0.35)

\textsuperscript{1766} (29,700/100,000)
income above £30,000 from 35% to 40%, the ATR of a person with £100,000 will increase from 29.7% to 33.9%. Table B will illustrate this point.

**Table B**

<table>
<thead>
<tr>
<th>Income levels</th>
<th>Types of income (£)</th>
<th>Slice of income (£)</th>
<th>Cumulative income (£)</th>
<th>Marginal tax rates (%)</th>
<th>Tax on each slice of income (£)</th>
<th>Cumulative tax (£)</th>
<th>Average tax rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest income level</td>
<td>Tax-free allowance</td>
<td>2,000</td>
<td>2,000</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Low income level</td>
<td>Taxable income</td>
<td>First portion 1,000 of taxable income (0-1,000)</td>
<td>1,000</td>
<td>3,000</td>
<td>5</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Middle income level</td>
<td>Taxable income</td>
<td>Next portion 14,000 of taxable income (1,001-15,000)</td>
<td>14,000</td>
<td>17,000</td>
<td>15</td>
<td>2,100</td>
<td>2,150</td>
</tr>
<tr>
<td>High income level</td>
<td>Taxable income</td>
<td>Next portion 15,000 of taxable income (15,001-30,000)</td>
<td>15,000</td>
<td>32,000</td>
<td>30</td>
<td>4,500</td>
<td>6,650</td>
</tr>
<tr>
<td>Highest income level</td>
<td>Taxable income</td>
<td>Above 30,000</td>
<td>68,000</td>
<td>100,000</td>
<td>40</td>
<td>27,200</td>
<td>33,850</td>
</tr>
</tbody>
</table>

*Remark: This percentage is calculated for £100,000 of gross income.*

Reducing MTRs on the earnings of the low-income group will cause a low level of ATRs. This will also bring about significant vertical redistribution. From the tax-rate structure in Table A, if the MTR is lowered on the first £1,000 of taxable income from 5% to 3%, the ATR of a person with £3,000 will decrease from 1.7% to 1%. Table C below will illustrate this point.
<table>
<thead>
<tr>
<th>Income levels</th>
<th>Types of income (£)</th>
<th>Slice of income (£)</th>
<th>Cumulative income (£)</th>
<th>Marginal tax rates (%)</th>
<th>Tax on each slice of income (£)</th>
<th>Cumulative tax (£)</th>
<th>Average tax rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest income level</td>
<td>Tax-free allowance</td>
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<td>2,000</td>
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<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Low income level</td>
<td>Taxable income</td>
<td>First portion 1,000 of taxable income (0-1,000)</td>
<td>1,000</td>
<td>3</td>
<td>30</td>
<td>30</td>
<td>1</td>
</tr>
</tbody>
</table>

*Remark:* This Table is abridged and modified from Table A above.
Appendix III to Chapter Two

Example 2.3

Under the structure of a single rate system, as shown in Table A below, there is a tax-free allowance of £2,000. All levels of taxable income are subject to a single rate of 25%. Under this structure, the ATRs of people with various income levels will be shown below.

(a) A person with £2,000 pays no tax.

(b) A person with £3,000 pays no tax on the first £2,000 of his/her total income. He/she pays tax at 25% on income over £2,000. 25% of £1,000 of taxable income is £250.\textsuperscript{1767} His/her ATR is 8.3%.\textsuperscript{1768}

(c) A person with £17,000 pays no tax on the first £2,000 of his/her total income. He/she pays tax at 25% on income over £2,000. 25% of £15,000 of taxable income is £3,750.\textsuperscript{1769} His/her ATR is 22.1%.\textsuperscript{1770}

(d) A person with £32,000 pays no tax on the first £2,000 of his/her total income. He/she pays tax at 25% on income over £2,000. 25% of £30,000 of taxable income is £7,500.\textsuperscript{1771} His/her ATR is 23.4%.\textsuperscript{1772}

(e) A person with £100,000 pays no tax on the first £2,000 of his/her total income. He/she pays tax at 25% on income over £2,000. 25% of £98,000 of taxable income is £24,500.\textsuperscript{1773} His/her ATR is 24.5%.\textsuperscript{1774}

\textsuperscript{1767} (1,000x0.25)
\textsuperscript{1768} (250/3,000)
\textsuperscript{1769} (15,000x0.25)
\textsuperscript{1770} (3,750/17,000)
\textsuperscript{1771} (30,000x0.25)
\textsuperscript{1772} (7,500/32,000)
\textsuperscript{1773} (98,000x0.25)
\textsuperscript{1774} (24,500/100,000)
Table A

<table>
<thead>
<tr>
<th>Income levels</th>
<th>Total pre-tax income (£)</th>
<th>Tax-free allowance (£)</th>
<th>Taxable income (£)</th>
<th>Single positive rate (%)</th>
<th>Tax on each level of income (£)</th>
<th>Average tax rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest income level</td>
<td>2,000</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Low income level</td>
<td>3,000</td>
<td>2,000</td>
<td>1,000</td>
<td>25</td>
<td>250</td>
<td>8.3</td>
</tr>
<tr>
<td>Middle income level</td>
<td>17,000</td>
<td>2,000</td>
<td>15,000</td>
<td>25</td>
<td>3,750</td>
<td>22.1</td>
</tr>
<tr>
<td>High income level</td>
<td>32,000</td>
<td>2,000</td>
<td>30,000</td>
<td>25</td>
<td>7,500</td>
<td>23.4</td>
</tr>
<tr>
<td>Highest income level</td>
<td>100,000</td>
<td>2,000</td>
<td>98,000</td>
<td>25</td>
<td>24,500</td>
<td>24.5</td>
</tr>
</tbody>
</table>

If the tax-free allowance is made larger, ATRs at all income levels are lower. The lower level of ATRs for the poor encourages vertical redistribution. By contrast, the lower level of ATRs for the rich discourages vertical redistribution. As shown in the tax-rate structure in Table A, if the tax-free allowance is increased from £2,000 to £2,500, the ATRs of different income groups will be reduced as follows:

(a) for those earning £3,000, from 8.3% to 4.2%;
(b) for those earning £17,000, from 22.1% to 21.3%;
(c) for those earning £32,000, from 23.4% to 23.04%; and
(d) for those earning £100,000, from 24.5% to 24.4%.

Table B below will illustrate this point.

Table B

<table>
<thead>
<tr>
<th>Income levels</th>
<th>Total pre-tax income (£)</th>
<th>Tax-free allowance (£)</th>
<th>Taxable income (£)</th>
<th>Single positive rate (%)</th>
<th>Tax on each level of income (£)</th>
<th>Average tax rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest income level</td>
<td>2,500</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Low income level</td>
<td>3,000</td>
<td>2,500</td>
<td>500</td>
<td>25</td>
<td>125</td>
<td>4.2</td>
</tr>
<tr>
<td>Middle income level</td>
<td>17,000</td>
<td>2,500</td>
<td>14,500</td>
<td>25</td>
<td>3,625</td>
<td>21.3</td>
</tr>
<tr>
<td>High income level</td>
<td>32,000</td>
<td>2,500</td>
<td>29,500</td>
<td>25</td>
<td>7,375</td>
<td>23.04</td>
</tr>
<tr>
<td>Highest income level</td>
<td>100,000</td>
<td>2,500</td>
<td>97,500</td>
<td>25</td>
<td>24,375</td>
<td>24.4</td>
</tr>
</tbody>
</table>
Appendix IV to Chapter Two

Example 2.4

Table A below shows a high single positive rate and high ATRs under a single rate system. Suppose that there is a tax-free allowance of £2,500 (the same amount as shown in Table B in Appendix III to Chapter Two), all levels of taxable income will be subject to a high single positive rate (“HSPR”) of 45% (a higher rate than that in Table B in Appendix III to Chapter Two). Under a single rate system with the HSPR, ATRs at all income levels are higher than those with a low single positive rate. The following are the ATRs of different income groups under the 45% HSPR.

(a) The ATR of a person with £3,000 is 7.5%, being 3.3 % higher than that of one with the same income but subject to a low single positive rate of 25% (as shown in Table B in Appendix III to Chapter Two).

(b) The ATR of a person with £17,000 is 38.4%, being 17.1 % higher than that of one with the same income but subject to a low single positive rate of 25% (as shown in Table B in Appendix III to Chapter Two).

(c) The ATR of a person with £32,000 is 41.5%, being 18.4 % higher than that of one with the same income but subject to a low single positive rate of 25% (as shown in Table B in Appendix III to Chapter Two).

(d) The ATR of a person with £100,000 is 43.9 %, being 19.5 % higher than that of one with the same income but subject to a low single positive rate of 25% (as shown in Table B in Appendix III to Chapter Two).

Table A

<table>
<thead>
<tr>
<th>Income levels</th>
<th>Total pre-tax income (£)</th>
<th>Tax-free allowance (£)</th>
<th>Taxable income (£)</th>
<th>Single positive rate (%)</th>
<th>Tax on each level of income (£)</th>
<th>Average tax rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest income level</td>
<td>2,500</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Low income level</td>
<td>3,000</td>
<td>2,500</td>
<td>500</td>
<td>45</td>
<td>225</td>
<td>7.5</td>
</tr>
<tr>
<td>Middle income level</td>
<td>17,000</td>
<td>2,500</td>
<td>14,500</td>
<td>45</td>
<td>6,525</td>
<td>38.4</td>
</tr>
<tr>
<td>High income level</td>
<td>32,000</td>
<td>2,500</td>
<td>29,500</td>
<td>45</td>
<td>13,275</td>
<td>41.5</td>
</tr>
<tr>
<td>Highest income level</td>
<td>100,000</td>
<td>2,500</td>
<td>97,500</td>
<td>45</td>
<td>43,875</td>
<td>43.9</td>
</tr>
</tbody>
</table>
Table A (as compared to Table B in Appendix III to Chapter Two) shows that the higher level of ATRs as a result of the HSPR will encourage the redistribution of income from the rich, but put heavier tax burdens on the poor. For this reason, a moderate single positive rate ("MSPR") is required.

Table B below shows that if the MSPR is set at 20%, ATRs at all income levels will be lower than those with a high single positive rate as shown in Table A. This encourages income redistribution at a low-income level. Table B shows that as a result of the 20% MSPR, the ATR of a person with £3,000 is 3.3%. This will be 4.2% lower than the ATR of one with the same income but subject to the 45% HSPR as shown in Table A.

However, the MSPR discourages income redistribution at the high and highest levels of income because:

(a) the ATRs of the high- and highest-income groups decrease; and
(b) the ATRs of such income groups will not be higher than the MSPR.

Table B shows that as a result of the 20% MSPR, the ATR of a person with £32,000 is 18.4% (less than the 20% MSPR). It will also be 23.1% lower than the ATR of one with the same income but subject to the 45% HSPR as shown in Table A. Besides, the ATR of a person with £100,000 is 19.5% (less than the 20% MSPR). It will be 24.4% lower than the ATR of one with the same income but subject to the 45% HSPR as shown in Table A.

Table B

<table>
<thead>
<tr>
<th>Income levels</th>
<th>Total pre-tax income (£)</th>
<th>Tax-free allowance (£)</th>
<th>Taxable income (£)</th>
<th>Single positive rate (%)</th>
<th>Tax on each level of income (£)</th>
<th>Average tax rates (ATR) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest income level</td>
<td>2,500</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Low income level</td>
<td>3,000</td>
<td>2,500</td>
<td>500</td>
<td>20</td>
<td>100</td>
<td>3.3</td>
</tr>
<tr>
<td>Middle income level</td>
<td>17,000</td>
<td>2,500</td>
<td>14,500</td>
<td>20</td>
<td>2,900</td>
<td>17.1</td>
</tr>
<tr>
<td>High income level</td>
<td>32,000</td>
<td>2,500</td>
<td>29,500</td>
<td>20</td>
<td>5,900</td>
<td>18.4</td>
</tr>
<tr>
<td>Highest income level</td>
<td>100,000</td>
<td>2,500</td>
<td>97,500</td>
<td>20</td>
<td>19,500</td>
<td>19.5</td>
</tr>
</tbody>
</table>
Appendix V to Chapter Two

The main provision on tax rates under UK law is Section 1 (2) of the Income and Corporation Taxes Act 1988 ("the TA 1988"). It is as follows:

"Section 1 The charge to income tax
(2) Where any Act enacts that income tax shall be charged for any year, income tax shall be charged for that year-
(a) in respect of so much of an individual’s total income as does not exceed £2,020\(^{1775}\), at such rate as Parliament may determine to be the starting rate for that year;
(b) in respect of so much of an individual’s total income as exceeds £31,400\(^{1776}\), at such higher rate as Parliament may determine;
but this subsection has effect subject to any provision of the Income Tax Acts providing for income tax to be charged at a different rate in certain cases."

\(^{1775}\) This amount is specified for 2004-05.

\(^{1776}\) This amount is specified for 2004-05.
**Appendix VI to Chapter Two**

The tax calculation for non-savings income, non-dividend savings income and dividend income is illustrated in four examples below.

The rates of tax on non-savings income for the tax year 2004-05 are as follows:

<table>
<thead>
<tr>
<th>Tax rates</th>
<th>(%)</th>
<th>Bands of taxable income (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting rate</td>
<td>10</td>
<td>0-2020</td>
</tr>
<tr>
<td>Basic rate</td>
<td>22</td>
<td>2,021-31,400</td>
</tr>
<tr>
<td>Higher rate</td>
<td>40</td>
<td>over 31,400</td>
</tr>
</tbody>
</table>

The rates of tax on savings income other than dividends for the tax year 2004-05 are as follows:

<table>
<thead>
<tr>
<th>Tax rates</th>
<th>(%)</th>
<th>Bands of taxable income (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting rate</td>
<td>10</td>
<td>0-2020</td>
</tr>
<tr>
<td>Lower rate</td>
<td>20</td>
<td>2,021-31,400</td>
</tr>
<tr>
<td>Higher rate</td>
<td>40</td>
<td>over 31,400</td>
</tr>
</tbody>
</table>

The rates of tax on dividends for the tax year 2004-05 are as follows:

<table>
<thead>
<tr>
<th>Tax rates</th>
<th>(%)</th>
<th>Bands of taxable income (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schedule F ordinary rate</td>
<td>10</td>
<td>0-31,400</td>
</tr>
<tr>
<td>Schedule F upper rate</td>
<td>32.5</td>
<td>over 31,400</td>
</tr>
</tbody>
</table>
**Example 2.5**

In 2004-05 Mr. A (a single man aged under 65) receives earned income of £15,000 together with interest arising on bank account of £3,000 (gross).

<table>
<thead>
<tr>
<th>(£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earned income (non-savings income)</td>
</tr>
<tr>
<td>Bank deposit interest (non-dividend savings income) (gross)</td>
</tr>
<tr>
<td>Total income</td>
</tr>
<tr>
<td>Deduct Personal allowance</td>
</tr>
<tr>
<td>Taxable income</td>
</tr>
</tbody>
</table>

**The tax liability is:**

<table>
<thead>
<tr>
<th>(£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-savings income at starting rate</td>
</tr>
<tr>
<td>Non-savings income at basic rate</td>
</tr>
<tr>
<td>Non-dividend savings income at lower</td>
</tr>
<tr>
<td>rate</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

**Deduct Tax deducted at source**

<table>
<thead>
<tr>
<th>(£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>from interest</td>
</tr>
<tr>
<td>Income tax payable</td>
</tr>
</tbody>
</table>

---

Example 2.6

In 2004-05 Ms. A (a single woman aged under 65) receives earned income of £30,000 together with building society interest of £7,000 (gross).

<table>
<thead>
<tr>
<th>(£)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Earned income (non-savings income)</td>
<td>30,000.00</td>
</tr>
<tr>
<td>Building society interest (non-dividend savings income) (gross)</td>
<td>7,000.00</td>
</tr>
<tr>
<td>Total income</td>
<td>37,000.00</td>
</tr>
<tr>
<td><strong>Deduct</strong> Personal allowance</td>
<td>4,745.00</td>
</tr>
<tr>
<td>Taxable income</td>
<td>32,255.00</td>
</tr>
</tbody>
</table>

**The tax liability is:**

- Non-savings income at starting rate: \( 2,020 \times 10\% = 202.00 \)
- Non-savings income at basic rate: \( 23,235 \times 22\% = 5,111.70 \)
- Carried forward: \( 25,255 \times 22\% = 5,313.70 \)
- Non-dividend savings income at lower rate: \( 6,145 \times 20\% = 1,229.00 \)

**Basic rate limit**: 31,400

- Non-dividend savings income at higher rate: \( 855 \times 40\% = 342.00 \)

\[ 32,255 \times 40\% = 6,884.70 \]

**Deduct** Tax deducted at source from interest: \( 5,000 \times 20\% = 1,000.00 \)

**Income tax payable**: \( 5,884.70 \)

---

1778 This example is adapted from an example in Hayward. (Hayward, op.cit.(note1777), p.62)
Example 2.7\footnote{This example is adapted from an example in Saunders. (Saunders, op.cit.(note1777), p.20)}

In 2004-05 Mr. A (a single man aged under 65) receives earned income of £30,000 together with net UK dividends of £9,000.

<table>
<thead>
<tr>
<th>Description</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earned income (non-savings income)</td>
<td>30,000.00</td>
</tr>
<tr>
<td>Dividends</td>
<td>9,000</td>
</tr>
<tr>
<td>Tax credit (1/9)</td>
<td>1,000</td>
</tr>
<tr>
<td>Gross dividends</td>
<td>10,000.00</td>
</tr>
<tr>
<td>Total income</td>
<td>40,000.00</td>
</tr>
<tr>
<td>Deduct Personal allowance</td>
<td>4,745.00</td>
</tr>
<tr>
<td>Taxable income</td>
<td>35,255.00</td>
</tr>
</tbody>
</table>

The tax liability is:

- Non-savings income at starting rate: $2,020 \times 10\% = 202.00$
- Non-savings income at basic rate: $23,235 \times 22\% = 5,111.70$
- Carried forward: $25,255 \times 22\% = 5,313.70$
- Dividend income at Schedule F
  - Ordinary Rate: $6,145 \times 10\% = 614.50$
  - Basic rate limit: $31,400$
- Dividend income at Schedule F
  - Upper Rate: $3,855 \times 32.5\% = 1,252.87$
  - $35,255 \times 32.5\% = 7,181.07$

Deduct Tax credit on dividends: $1,000.00$

Income tax payable: $6,181.07$
Example 2.8

In 2004-05 Ms. A (a single woman aged under 65) receives earned income of £30,000 together with building society interest of £6,000 (gross) and net UK dividends of £900.

<table>
<thead>
<tr>
<th>(£)</th>
<th>(£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earned income (non-savings income)</td>
<td>30,000.00</td>
</tr>
<tr>
<td>Building society interest (non-dividend savings income) (gross)</td>
<td>6,000.00</td>
</tr>
<tr>
<td>Dividends</td>
<td>900</td>
</tr>
<tr>
<td>Tax credit (1/9)</td>
<td>100</td>
</tr>
<tr>
<td>Gross dividends</td>
<td>1,000.00</td>
</tr>
<tr>
<td>Total income</td>
<td>37,000.00</td>
</tr>
</tbody>
</table>

*Deduct* Personal allowance 4,745.00

Taxable income 32,255.00

**The tax liability is:**

- Non-savings income at starting rate 2,020 x 10% = 202.00
- Non-savings income at basic rate 23,235 x 22% = 5,111.70
- Carried forward 25,255 x 22% = 5,313.70
- Non-dividend savings income at lower rate 6,000 x 20% = 1,200.00

- Dividend income at Schedule F
  - Ordinary Rate 145 x 10% = 14.50
  - *Basic rate limit* 31,400
- Dividend income at Schedule F
  - Upper Rate 855 x 32.5% = 277.87
  - 32,255 x 32.5% = 6,806.07

*Deduct* Tax deducted at source from interest 6,000 x 20% = 1,200.00

*Deduct* Tax credit on dividends 100.00

**Income tax payable** 5,506.07

---

1780 This example is adapted from an example in Homer and Burrows. (Homer and Burrows, op.cit.(note1021), p.21)
Appendix VII to Chapter Two

According to Table 2.3, low-rate taxpayers, (lower) middle-rate taxpayers, (upper) middle-rate taxpayers, high-rate taxpayers, and highest-rate taxpayers have the following meaning.

Low-rate taxpayers mean those with taxable income not exceeding 100,000 baht taxed at the 5% rate. In this tax year, taxable income from 0 to 50,000 baht is tax-exempt income

(Lower) Middle-rate taxpayers mean those with taxable income not exceeding 100,000 baht taxed at the 5% rate (taxable income from 0 to 50,000 baht being tax-exempt income), and the next 400,000 baht at the 10% rate.

(Upper) Middle-rate taxpayers mean those with taxable income not exceeding 100,000 baht taxed at the 5% rate (taxable income from 0 to 50,000 baht being tax-exempt income), the next 400,000 baht at the 10% rate, and the next 500,000 baht at the 20% rate.

High-rate taxpayers mean those with taxable income not exceeding 100,000 baht taxed at the 5% rate (taxable income from 0 to 50,000 baht being tax-exempt income), the next 400,000 baht at the 10% rate, the next 500,000 baht at the 20% rate, and the next 3,000,000 baht at the 30% rate.

Highest-rate taxpayers mean those with taxable income not exceeding 100,000 baht taxed at the 5% rate (taxable income from 0 to 50,000 baht being tax-exempt income), the next 400,000 baht at the 10% rate, the next 500,000 baht at the 20% rate, the next 3,000,000 baht at the 30% rate, and over 4,000,000 baht at the 37% rate.

According Table 2.6, starting-rate taxpayers, basic-rate taxpayers, and higher-rate taxpayers have the following definitions.

The Inland Revenue defines starting-rate taxpayers as “taxpayers with a marginal rate at the 10% starting rate from an extra £1 of earnings.” In this table, starting-rate taxpayers include savings-rate taxpayers. The Inland Revenue defines savings-rate taxpayers as “taxpayers with a marginal rate at the 20% lower rate for savings income or the 10% ordinary dividend rate from an extra £1 of earnings.”

\[178^1\] Inland Revenue, http://www.inlandrevenue.gov.uk/stats/income_tax/it_t05_1.htm, as of 10/09/03
The Inland Revenue defines basic-rate taxpayers as "taxpayers with a marginal rate at the 22% basic rate from an extra £1 of earnings." ¹⁷⁸²

The Inland Revenue defines higher-rate taxpayers as "taxpayers with taxable income above the higher rate threshold." ¹⁷⁸³

¹⁷⁸² Inland Revenue, http://www.inlandrevenue.gov.uk/stats/income_tax/it_t05_1.htm as of 10/09/03
¹⁷⁸³ Inland Revenue, http://www.inlandrevenue.gov.uk/stats/income_tax/it_t05_1.htm as of 10/09/03
Appendix VIII to Chapter Two

A comparison between the past and present Thai tax rate schedules\textsuperscript{1784}

<table>
<thead>
<tr>
<th>Bands (baht per year)</th>
<th>Rates (%)</th>
<th>Bands (baht per year)</th>
<th>Rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-30,000</td>
<td>7</td>
<td>0-100,000</td>
<td>tax-exempt income</td>
</tr>
<tr>
<td>30,001-60,000</td>
<td>10</td>
<td>100,001-500,000</td>
<td>10</td>
</tr>
<tr>
<td>60,001-100,000</td>
<td>13</td>
<td>500,001-1,000,000</td>
<td>20</td>
</tr>
<tr>
<td>100,001-150,000</td>
<td>17</td>
<td>1,000,001-4,000,000</td>
<td>30</td>
</tr>
<tr>
<td>150,001-200,000</td>
<td>22</td>
<td>Over 4,000,000</td>
<td>37</td>
</tr>
<tr>
<td>200,001-270,000</td>
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<td></td>
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<tr>
<td>270,001-350,000</td>
<td>35</td>
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<tr>
<td>350,001-450,000</td>
<td>40</td>
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<tr>
<td>450,001-600,000</td>
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<td></td>
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<tr>
<td>600,001-800,000</td>
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<td></td>
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<tr>
<td>800,001-1,000,000</td>
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<td></td>
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<tr>
<td>1,000,001-2,000,000</td>
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<td></td>
</tr>
<tr>
<td>Over 2,000,000</td>
<td>65</td>
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</tbody>
</table>

A comparison between the past and present UK tax rate schedules\textsuperscript{1785}

<table>
<thead>
<tr>
<th>Bands (£)</th>
<th>Rates (%)</th>
<th>Bands (£)</th>
<th>Rates (%)</th>
<th>Bands (£)</th>
<th>Rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4,500</td>
<td>33</td>
<td>0-12,800</td>
<td>30</td>
<td>0-2,020</td>
<td>10</td>
</tr>
<tr>
<td>4,501-5,000</td>
<td>38</td>
<td>12,801-15,100</td>
<td>40</td>
<td>2,021-31,400</td>
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</tr>
<tr>
<td>5,001-6,000</td>
<td>43</td>
<td>15,101-19,100</td>
<td>45</td>
<td>Over 31,400</td>
<td>40</td>
</tr>
<tr>
<td>6,001-7,000</td>
<td>48</td>
<td>19,101-25,300</td>
<td>50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7,001-8,000</td>
<td>53</td>
<td>25,301-31,500</td>
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<td>8,001-10,000</td>
<td>58</td>
<td>Over 31,500</td>
<td>60</td>
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<td>10,001-12,000</td>
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<td>12,001-15,000</td>
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<tr>
<td>Over 20,000</td>
<td>83</td>
<td></td>
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</tbody>
</table>

\textsuperscript{1784} Source: The group of Thai tax academicians, op.cit.(note629), a back cover.

\textsuperscript{1785} Source: Inland Revenue

www.inlandrevenue.gov.uk/stats/tax_struct...00ap_a2c_2.htm; and

www.inlandrevenue.gov.uk/rates/it.htm
The substitution effect includes the following features.

The first feature is choice between leisure and work. As a result of high MTRs, a taxpayer may substitute taking untaxed leisure for doing more paid work or extra hours of paid work.\textsuperscript{1786}

The second feature is choice between a present position / occupation / market activity and a new better-paid position / occupation / market activity. As a result of high MTRs, a taxpayer may refuse to accept promotion, change to a new occupation, or launch a new market activity even though he/she would earn a higher wage, a higher salary, or a higher return. In other words, a taxpayer may substitute his/her present position, occupation, or market activity for a new higher-paid position, a new higher-paid occupation, or a higher profit in a new market activity. This is because the increase in his/her earnings or return after tax would be low and not compensate for the costs of a more responsible or more difficult occupation, or more concern about success or failure in a new market activity.\textsuperscript{1787}

The third feature is a choice between low wages after tax in the home country and higher wages after tax abroad. As a result of high MTRs in his/her home country, a taxpayer may emigrate to substitute higher after-tax earnings in a foreign country ("where it would be less steeply taxed"\textsuperscript{1788}) for low after-tax earnings in his/her home country.\textsuperscript{1789}

The fourth feature is a choice between "do-it-yourself activity at home"\textsuperscript{1790} and hiring other people’s services.\textsuperscript{1791} As a result of high MTRs, a taxpayer’s disposable income from extra paid work is much less. A taxpayer may also perceive that it is not worthwhile for him/her to do more paid work. Consequently, a taxpayer may substitute doing unpaid work at home by himself/herself for taxed work or for hiring other people’s services. For example, due

\textsuperscript{1787} IFS, op.cit.(note98), p.8; James and Nobes, op.cit.(note5), p.58; Trotman-Dickenson, op.cit.(note138), p.97; and OECD, op.cit.(note319), p.5
\textsuperscript{1788} Trotman-Dickenson, op.cit.(note138), p.97
\textsuperscript{1789} IFS, op.cit.(note98), p.8; and Trotman-Dickenson, op.cit.(note138), p.97
\textsuperscript{1790} IFS, op.cit.(note98), p.8
\textsuperscript{1791} Trotman-Dickenson, op.cit.(note138), p.97
to higher tax rate on additional income, a lawyer may choose not to do extra work for his client in order to have time to mow his lawn, instead of hiring someone to do this.
Appendix X to Chapter Two

The following are the conclusions from empirical studies on tax effects on high-income groups’ work decisions.

1. A study by Break

Break conducted a survey of tax effects on the work behaviour of 306 solicitors and accountants in England in 1956. He chose solicitors and accountants to interview because they were supposed to be responsive to the disincentive and incentive effects of high MTRs; in other words, it would have been easy for them to adjust their work effort.

Break found that a majority of interviewees were not affected by income tax on working hours. The work effort of about 23% of interviewees was affected by income tax: 13% suffered a disincentive effect, and 10% experienced an incentive effect and postponed retirement. These opposing effects seemed to offset each other. Break concluded that “this net effect be it disincentive or incentive, is not large enough to be of great economic or sociological significance.”

2. A study by Fields and Stanbury

Fields and Stanbury repeated Break’s study in 1969. They interviewed 285 solicitors and accountants in England in the same way as employed by Break. They found that the working hours of the majority of interviewees remained unaffected by income tax. About 19% of interviewees suffered a disincentive effect; and 11% of interviewees experienced an incentive effect. It is observed that the disincentive effect might result from “the long-continued high levels of income taxation or declines in the nonmonetary satisfactions received from work or both.”

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1792 James and Nobes, op.cit.(note5), p.62
1793 Brown and Sandford, op.cit.(note295), pp. 414 and 415; and OECD, op.cit.(note319), p.46
1794 Summer, op.cit.(note361), p.46
1795 Brown and Sandford, op.cit.(note295), p.415
1796 ibid. p.415
1797 Brown, op.cit.(note290), p.97; and OECD, op.cit.(note319), pp.36-37
1798 Brown and Jackson, op.cit.(note2), p.334
1799 Break, op.cit.(note355), p.182
1800 Summer, op.cit.(note361), p.46
1801 Brown and Sandford, op.cit.(note287), p.206
1802 Break, op.cit.(note355), p.184
In view of the greater disincentive effect, Fields and Stanbury assert that “an individual might not only refuse new work, but also re-distribute existing work so as to work less himself.”\(^{1803}\) Fields and Stanbury’s results imply that “if there is a net tax effect, it is likely to be in the direction of a disincentive, and also that the disincentive effect was growing stronger over time.”\(^{1804}\)

3. Studies by the Royal Commission on the Distribution of Income and Wealth

The first report (Cmd.6171, 1975) and the eighth and last report (Cmd.7679, 1979) concluded that “… none of the studies (including a single study covering higher incomes in the UK) gives support to the proposition that high levels of taxation have a significant effect on work effort.”\(^{1805}\)

4. A study by Fiegehen and Reddaway

Fiegehen and Reddaway conducted a survey on the incentives of senior managers in Britain in 1978.\(^{1806}\) The result of their survey was that the percentage of interviewees who suffered a disincentive effect equaled that of interviewees who experienced an incentive effect (12% each).\(^{1807}\) Fiegehen and Reddaway also found that disincentive effects in the forms of emigration and a reluctance to accept a higher position were small.\(^{1808}\) They therefore concluded that “it is clear that in total any disincentive effects that operated on senior managers had a minimal impact on the activities of British industry.”\(^{1809}\)

5. A study by Standford

Standford carried out his survey by sending questionnaires to executives in Britain in 1969.\(^{1810}\) He discovered that about 34% of respondents suffered a disincentive effect.\(^{1811}\) The respondents claimed the disincentive effect took the forms of “emigration and a reluctance to take greater responsibilities and to work

\(^{1803}\) OECD, op.cit.(note319), p.47
\(^{1804}\) Brown, op.cit.(note290), p.98
\(^{1805}\) Trotman-Dickenson, op.cit.(note138), p.101
\(^{1806}\) Brown, op.cit.(note290), p.99
\(^{1807}\) Brown and Sandford, op.cit.(note287), p.207
\(^{1808}\) Kay and King, op.cit.(note60), p.34
\(^{1809}\) Brown and Sandford, op.cit.(note287), p.207
\(^{1810}\) OECD, op.cit.(note319), p.45
\(^{1811}\) ibid.p.45
However, there was little evidence to show that “tax rates were the definite cause of these things.”

6. A study by Holland

Holland conducted a study of tax effects on American business executives in the US in 1965-66. His study concluded that there was little evidence of taxation “reducing or increasing productive work.”

7. A study by Sanders

Sanders conducted a study of the effect of tax rates on the working lives of 160 American executives in the US between 1946 and 1950. He found that “there was some evidence that income taxation caused executives to postpone retirement.” He also discovered the following disincentive effects of high tax rates.

“High tax rates had tended to inhibit mobility. Promotion and other job offers had been refused on the grounds that high taxes made the better paid positions less attractive. It is, of course, possible that high taxes played only a minor role in decisions to turn down promotion and that interviewees were reluctant to describe the more important reasons, e.g. fear of taking on additional responsibility.”

8. A study by Davidson

Davidson carried out a survey of tax effects on the work behaviour of seven high-income doctors. His work, which was published in 1953, suggested that "there was no evidence to suggest that higher taxes had reduced the doctors’ supply of work effort." His work also discovered that "there was a little evidence that retirement had been postponed after an increase in tax rates, but none of the
interviewees was able to say whether this decision was taken as a result of inflation or taxes."

8. A study by Grubel and Edwards

Grubel and Edwards conducted a survey of tax effects on occupational choice in the US. Their work was published in 1964. Fifty Stanford University senior students were chosen for interview. Most of the interviewees came from wealthy families. The interviewees were informed of the existence of high progressive rates of income tax. The interviewees were then asked "to what extent taxation and income factors had influenced [their occupational choices.]" Most of the interviewees chose "professions with high earnings potential where the probability of being affected by progressive taxation was highest." About 80% of interviewees said that "taxation was not an important variable in the choice of an occupation." Grubel and Edwards' study therefore suggested that progressive income taxation was not a significant factor in occupational choice.

9. A study by Chatterjee and Robinson

Chatterjee and Robinson carried out a survey of tax effects on the work effort of 103 professionals and 266 non-professionals in Canada. They concluded (1969) that "generally... Taxation influences in the aggregate supply of effort seem to be relatively negligible."

The following are the conclusions from empirical studies on tax effects on low-income groups' work decisions.

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1821 ibid.p.33
1822 ibid.p.41
1823 ibid.p.41
1824 ibid.p.41
1825 ibid.p.41
1826 ibid.p.41
1827 ibid.p.41
1828 ibid.p.41
1829 ibid.p.41
1830 ibid.p.41
1831 ibid.p.41
1832 ibid.p.63
1833 ibid.p.63
1. A study by the Royal Commission on National Debt and Taxation (Cmnd.2800, 1927)

This study concluded that "the income tax borne by employees and professional men has had no important effect on their work effort and enterprise."\(^\text{1833}\)

2. A study by the Government Social Survey

The Government Social Survey was a survey of the incentive and disincentive effects of taxation in the UK for the British Royal Commission on the Taxation of Profit and Incomes in 1952.\(^\text{1834}\) Industrial workers and supervisors in England and Wales were chosen to be interviewed. This is because "they could work overtime or because they were paid piece rates."\(^\text{1835}\) However, the study concluded that "there was no evidence that productive effort was inhibited by the income tax."\(^\text{1836}\)

\(^{1833}\) Trotman-Dickenson, op.cit.(note138), p.101
\(^{1834}\) OECD, op.cit.(note319), p.33
\(^{1835}\) Brown and Jackson, op.cit.(note2), p.331
\(^{1836}\) ibid.p.331
Appendix XI to Chapter Two

There are a number of possible factors influencing individuals' work decisions apart from progressive income taxation. Such factors include (a) the nature of work, (b) personal circumstances, (c) the mechanism of the labour market, and (d) financial considerations.

Nature of work

Some people, such as "services and salaries workers"\(^{1837}\) may not be free to choose or vary the amount of their work because their "earnings and effort are not directly related"\(^{1838}\), or because their work is "strictly confined to fixed hours."\(^{1839}\) "If a person's total pay does not change because of the number of hours he works, then the tax system cannot really be making him work more or less"\(^{1840}\), as Brown and Jackson affirm. Similarly, some employees may not be able to work more or less as they prefer because their work is constrained by the instructions of their employers\(^{1841}\), "negotiated agreements"\(^{1842}\), or "institutional restriction,"\(^{1843}\) such as the "standard working week."\(^{1844}\) Therefore, progressive income taxation is not a significant determinant of their work effort.

Personal circumstances

Circumstances that affect individuals' work decisions include the following: -

- Some people may prefer working for non-pecuniary benefits to working for money income.\(^{1845}\) Where non-pecuniary benefits are not taxed or not taxed as "heavily as money income"\(^{1846}\), the non-pecuniary factor has more influence on their work behavior than income taxation.\(^{1847}\)

- Some married women may be able to choose not to work outside the home.\(^{1848}\)

\(^{1837}\) Trotman-Dickenson, op.cit.(note138), p.98
\(^{1838}\) ibid.p.98
\(^{1839}\) Sandford, op.cit.(note19), p.150
\(^{1840}\) Brown and Jackson, op.cit.(note2), p.333
\(^{1841}\) ibid.p.333
\(^{1842}\) Summer, op.cit.(note361), p.37
\(^{1843}\) Break, op.cit.(note355), p.181
\(^{1844}\) OECD, op.cit.(note319), p.127
\(^{1845}\) Prest, op.cit.(note40), p.269
\(^{1846}\) James and Nobes, op.cit.(note5), p.57
\(^{1847}\) OECD, op.cit.(note319), pp.33, 36, and 123
\(^{1848}\) James and Nobes, op.cit.(note5), p.58
• Some people may be in a position to choose the jobs that satisfy them best. 1849

• Some people may wish to work hard to earn more income to maintain their "social status and prestige." 1850 A report to the OECD ("the OECD") supports the view that this factor has a more significant effect on work behavior than income taxation, by saying that:

"The gross (before tax) income is regarded as an index of achievement, so that the impact of taxation will be reduced since it affects only the level of net (after tax) income." 1851

• Some people may wish to do more work but may not do so because of their "health or family commitments." 1852

• Some people may not want to increase the amount of their work because they have a "fear of taking on additional responsibility." 1853

• Some people, such as "the self-employed, members of professions and tradesmen" 1854 may be in a position to determine by themselves "how much work they will undertake and how much they will earn." 1855

• Most people must work to sustain their lives. "Consequently, changes in income tax rates are not likely to have an appreciable effect on the supply of labour" 1856, as D.I. Trotman-Dickenson claims.

Mechanism of the labour market

An individual's working behaviour may depend on the mechanism of the labour market. In a competitive market, employers tend to offer working conditions to satisfy their workers. 1857 For example, if "workers suddenly decide they want a shorter working week, employers who offer it will gain an advantage over employers who do not." 1858

1849 ibid.p.58; and OECD, op.cit.(note319), p.127
1850 OECD, op.cit.(note319), p.127
1851 ibid.p.127
1852 Brown and Jackson, op.cit.(note2), p.333
1853 OECD, op.cit.(note319), p.32
1854 Trotman-Dickenson, op.cit.(note138), p.98
1855 ibid.p.98
1856 ibid.p.100
1857 James and Nobes, op.cit.(note5),p.58
Financial considerations

Some people may choose to postpone their retirement because of the effects of inflation.\textsuperscript{1859}
The following empirical studies in the UK will support the evidence as claimed by Brown.

1. A study by Rolfe and Furness

Part of the study by Rolfe and Furness was designed to investigate "the effect of income tax reductions in 1946 and 1947." Their study was conducted by using the records of the actual work effort of 120 English cotton workers before and after income tax reductions. Their study concluded that the tax change had little effect on labour supply. They discovered that although there was an increase in the number of hours worked during this period, this increase might result from other factors than the tax change, e.g. "an increasing availability in consumption goods coinciding with the tax change."

2. A study by Minford and Ashton

Minford and Ashton's study as rewritten by Brown suggests that "the labour supply of those paying higher rates of tax will increase by 8%" as a result of the effect of the reduction in the higher rate to 40% in 1988.

3. A study by Brown and Sandford

Brown and Sandford conducted a study of the effect of the reduction in the top MTR in 1988 on work incentives. Their study was conducted by interviewing 316 accountants in the UK in the fiscal year 1989-90. The study sought to compare the effects of tax rates in 1987-88 (the year before the tax rate reduction) with those in 1988-89 (the year after the tax rate reduction). Most accountants in this study paid tax at higher rates and "had a cut in tax rate of at least 5% as a result of the 1988 Budget."

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1860 OECD, op.cit.(note319), p.38
1861 ibid.p.38
1862 ibid.p.39
1863 ibid.p.39
1864 Brown, op.cit.(note290), p.106
1865 Brown and Sandford, op.cit.(note287), p.203
1866 ibid.p.207
1867 ibid.p.207
1868 ibid.p.207
The study discovered that tax-rate reduction provided very few of interviewees with work incentives.\textsuperscript{1869} There were only 3 interviewees out of 316 working more hours,\textsuperscript{1870} and less than 1\% saying that tax-rate reduction "had made them more enterprising or adventurous."\textsuperscript{1871} The study also discovered that progressive income taxation had no effect on interviewees' decisions to move office.\textsuperscript{1872} The study concluded that the reduction in higher rates in 1988 had "no significant supply side effects."\textsuperscript{1873}

Brown and Sandford's study also discovered that there was an increase in tax revenue despite the reduction in high MTRs in 1988. However, such an increase came about not because tax-rate reduction caused people to do more paid work and to pay more income tax. The study found that only 3\% of interviewees paid more or the same amount of income tax because of working longer or harder. The study also found that around 90\% of interviewees paid more income tax because of "increased pay/increased profits/promotion."\textsuperscript{1874}

\textsuperscript{1869} ibid.p.209
\textsuperscript{1870} ibid.p.209
\textsuperscript{1871} ibid.p.211
\textsuperscript{1872} ibid.p.211
\textsuperscript{1873} ibid.p.217
\textsuperscript{1874} ibid.p.216
Appendix XIII to Chapter Two

Example 2.9

Suppose that the highest MTR of 50% is imposed on interest income over £29,900. If the interest rate is 10%, a taxpayer will get a 5% return on the highest margin of interest income. Further suppose that the rate of inflation is 5%. In this case, “half of the 10 percent interest that [a taxpayer] earns is just making up for the decline in the real purchasing power of [a taxpayer’s] savings.”\textsuperscript{1876} Therefore, in this situation, the highest MTR of 50% on “nominal interest rate” appears to be a 100 percent tax on “real interest.” A taxpayer will get a zero percent return on the highest margin of interest income as a result. A taxpayer’s savings will also decline in value due to inflation.

\textsuperscript{1875} This example is adapted from that shown in Slemrod and Bakija. (Slemrod and Bakija, op.cit.(note63), p.109)

\textsuperscript{1876} ibid.p.109
Appendix XIV to Chapter Two

Other factors influencing the savings rate can be divided into two groups, namely (a) factors influencing a decline in saving and (b) those influencing an increase in saving.

(a) Factors that influence a decline in personal saving are found to include the following.

(i) Demographic shift\textsuperscript{1877}

This factor can be clarified as follows:

"During their working years, individuals spend less than they earn, and thus accumulate wealth, which they plan to draw on once they retire. So the more retired people there are in relation to the number of workers, the lower the saving rate will be."\textsuperscript{1878}

(ii) Inflation\textsuperscript{1879}

This factor can be clarified as follows:

"When inflation soared, the erosion of the real value of wealth prompted households to save more to rebuild their assets. As inflation fell, they needed to save less to maintain their real wealth."\textsuperscript{1880}

(iii) Interest rates

Interest rates which vary with “debt and monetary policy” and with a demand for borrowing by firms, could affect saving.\textsuperscript{1881} It has been discovered that “the fall in borrowing by firms has helped to push down interest rates; lower interest income has then reduced household saving.”\textsuperscript{1882}

(iv) Financial liberalisation\textsuperscript{1883}

According to Gale, “financial liberalisation appears to have been an important part of the saving decline in the 1980s [in the UK].”\textsuperscript{1884}

\textsuperscript{1877} Messere, op.cit.(note240), p.137
\textsuperscript{1878} The Economist, op.cit.(note458), p.83
\textsuperscript{1879} ibid.p.83
\textsuperscript{1880} ibid.p.83
\textsuperscript{1881} ibid.p.83
\textsuperscript{1882} ibid.p.83
\textsuperscript{1883} Gale, op.cit.(note718), p.355
\textsuperscript{1884} ibid.p.355
(v) Social welfare programmes

Social welfare programmes, e.g. “state pension schemes”, and a social security system, could effect the decline in saving. Social security affects saving because “it provides individuals with income for retirement; it pays benefits to meet needs at particular stages of the life cycle (e.g. child benefits); it covers individuals against the loss of income through sickness or unemployment.”

The factors above undermine the argument that a high MTR causes a fall in the saving rate.

(b) Factors leading to an increase in saving have been found to include the following.

(i) Having some target for future consumption encourages individuals to save. According to interview surveys, among the affluent, such a target may be a given sum “for retirement, against future emergencies, and for the education of children.” Similarly, among people with lower income, as argued by Silverman and referred to earlier, an incentive to save is to provide for “old age and for dependents.”

(ii) Deflation leads to an increase in saving because it can cause “people to put off buying things [today] in the expectation that they will be able to get them more cheaply next year.”

(iii) As decline in property prices results in “a loss of wealth”, people may wish to save more “to rebuild their nest eggs.”

(iv) A “big increase in government borrowing” could lead to an increase in saving. This is because people may save more today to prepare themselves for higher future taxes to pay off the huge debt incurred by the government.
(v) An increase in saving could result from inflation. It has been found that “when inflation soared, the erosion of the real value of wealth prompted households to save more to rebuild their assets.”

(vi) Interest rates, which vary with “debt and monetary policy” and with a demand for borrowing by firms, could bring about an increase in saving. It has been discovered that a heavy demand for borrowing by firms pushes up interest rates, which will possibly encourage people to save more.

In addition to factors (i)-(vi), “rapid income growth”, “the socio-cultural background of the savers”, and limiting social welfare programmes (e.g. a limited social security system) undermine the role of tax-rate reduction in the rise in the saving rate.

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1896 ibid.p.83
1897 ibid.p.83
1898 ibid.p.83
1899 ibid.p.83
1900 James and Nobes, op.cit.(note5), p.68
1901 ibid.p.68
1902 ibid.p.68
In the past, three proposals were made to reduce tax burdens on low-income groups, as shown in Connolly and Munro.\footnote{Sara Connolly and Alistair Munro, \textit{Economics of the Public Sector} (Essex: Pearson Education Limited, 1999), 182.}

\textbf{Proposal 1} – Cutting the lower rate to 19%.

\textbf{Proposal 2} – Introducing a new lower rate of 10% which would be levied on the first £375 of taxable income and then imposing the existing 20% rate on income between £4,420 and £8,145.

\textbf{Proposal 3} – Replacing the lower rate of 20% with a 10% rate and extending the income band on which the basic rate is applied. Now the 23% rate would be applied on income between £5,195 and £30,145.

These proposals are all illustrated below and compared against the current system [1997].

Source: IFS Green Budget 1997, Figure 4.9, 1997b
Appendix I to Chapter Three

Example 3.1
Jim and Jack are both single and in full-time employment. Each receives the same salary of £200,000 a year. However, in addition, Jim is provided by his employer with free accommodation. Fringe benefits received are worth about £10,000 a year. If salaries are included in the tax base but fringe benefits not, Jim and Jack will pay equal income tax. This will result in vertical inequity and thwart redistribution, for the following reasons:-

Firstly, fringe benefits increase Jim’s economic power, and should be regarded as income for tax purposes. As Stiglitz notes, “most economists believe that [fringe] benefits should be included within taxable income, …. [fringe] benefits are clearly worth more to some individuals than to others.” On this basis, Jim has greater ability to pay than Jack and should pay more tax.

Secondly, when fringe benefits do not fall within the tax base, Jim pays the same tax as Jack. This is vertical inequity. Consequently, there is no income redistribution between different income classes.

If fringe benefits were included in the definition of income, Jim would pay more tax than Jack. Consequently, this broad definition would therefore achieve vertical redistribution.

Example 3.2
Tom and Derek are both single, but Tom is in full-time employment while Derek is unemployed. In 2003-2004, Tom receives a salary of £200,000. Meanwhile, Derek receives jewels, as gifts, which are worth about £200,000. Supposing that salaries are included in the tax base but gifts not included, Tom will pay income tax this tax year, but Derek will not. This would be horizontal inequity and violate the basic concept of redistribution, for the reasons given below.

Firstly, gifts are reflected the accrual of Derek’s wealth and so, Derek has as much ability to pay as Tom and should pay equal tax.

Secondly, when gifts do not fall within the tax base, Derek who has equal taxable capacity to Tom, pays no tax on his gifts. Meanwhile, Tom pays income tax on his salary. This is horizontal inequity. Consequently, there is income
redistribution between the same income class, which violates the basic concept of redistribution.

If gifts were included within the definition of income, Derek would pay the same tax as Tom. Consequently, this broad definition would achieve horizontal equity and not violate the redistribution concept.

Morse and Williams give the following, similar example:

"Hal has £100,000 in hand. He uses it to buy a house in which he then lives, paying no rent. Cher also has £100,000 in hand. She spends it on buying company shares. She lives in a rented house. Hal pays no tax on the use he has made of his £100,000 (the occupation of his house). Cher does pay tax on the use she has made of her £100,000 (the dividends). Is this fair?"

Based on the concept of income under the CIT idea, the answer to the above question is certainly "no". The value of £100,000 for use as owner-occupied housing or "imputed rent – the notional value of the rent you would get if you were letting your own home" increases a person's economic power. This imputed rent is equivalent to money income and should be included within the tax base. Otherwise horizontal equity is violated. If income defined for tax purposes included the imputed rent, there would be no violation of horizontal equity and the basic concept of redistribution.

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1904 Stiglitz, op.cit.(note68), p.518
1905 Morse and Williams, op.cit.(note15), p.7
1906 The Economist, op.cit.(note502), p.34
Appendix II to Chapter Three

Under Section 40, there are 8 categories of assessable income as follows:

(1) income derived from employment, whether in the form of salary, wage, per diem, bonus, bounty, gratuity, pension, house rent allowance, monetary value of rent-free residence provided by an employer, payment made by an employer for settlement of any obligation due from an employee, or any money, property or benefits derived from employment,

(2) income derived by virtue of a post, office of employment or service rendered, whether in the form of fee, brokerage, discount, subsidy, meeting fee, gratuity, bonus, house rent allowance, monetary value of rent-free residence provided by a payer of income, payment made by a payer of income for settlement of any obligation due from a person having income, or any money, property or benefits derived by virtue of a post, office of employment or service rendered, whether permanent or temporary,

(3) value received for goodwill, copyright or any other rights, annuity or income in the nature of yearly payments derived from a will, any other juristic act, or judgement of the court,

(4) income in the nature of:
   (a) interest on bonds, deposits, debentures, bills, loans whether with or without security, that part of loan interest subject to tax-withholding under the law governing petroleum, income tax which remains after the deduction of the tax withheld under such a law, or the difference between the redemption value and the selling price of a bill or a debt instrument issued by a juristic company or partnership or by any other juristic person and sold for the first time at a price below its redemption value, including income similar in nature to interest, a gain or another consideration received from extending a loan or from a claim on account of an obligation of any kind whether with or without security,
   (b) dividend, share of profits or any gains derived from a juristic company or partnership, a mutual fund or a financial institution
organized by a specific law of Thailand for the purpose of lending money to promote agriculture, commerce or industry, that part of dividend or share of profits subject to tax withholding under the law on petroleum income tax which remains after the deduction of the tax withheld under such law,

(c) bonus received by a shareholder or partner of a juristic company or partnership,

(d) payment received as a result of reduction of the capital of a juristic company or partnership in so far as the payment does not exceed the sum of profits and reserves of the company or partnership;

(e) increase of capital holdings in a juristic company or partnership which results from transfer of profits and/or reserves;

(f) that part of value received from the amalgamation, acquisition or dissolution of juristic companies or partnerships which exceeds the cost of investment,

(g) that part of the proceeds derived from transfer of partnership holdings, shares, debentures, bonds, or bills or debt instruments issued by a juristic company or partnership or by any other juristic person, which exceeds the cost of investment,

(5) money or any other benefits derived from

(a) letting out property on hire,

(b) breach of a hire-purchase contract,

(c) breach of a contract of installment sale, whereby the seller repossesses the properties sold without having to return the money or benefits received,

(6) income from liberal professions, namely, law, healing arts, engineering, architecture, accountancy, fine arts, or such other liberal profession as may be specified by Royal Decree,

(7) income from a contract of work whereby the contractor provides essential materials besides tools,

(8) income from business, commerce, agriculture, industry, transport or any other activities not specified in (1) to (7) above.
Appendix III to Chapter Three

The reasons for discussing the basic allowance, allowances for married couples and for children, age-related allowances, and the blind person’s allowance under the heading of structural reliefs are given below.

The personal allowance which is primarily regarded as the structural element of PIT is the basic personal allowance to which everyone is entitled. Additionally, according to Willis and Hardwick, the structural elements of PIT include allowances for married couples and for children. Therefore, these three allowances are discussed under the heading of the effect of structural reliefs.

Age-related allowances and the blind person’s allowance are also discussed under this heading although the two allowances are not explicit structural reliefs.

According to HM Treasury, age-related allowances can be classified as both structural components and tax expenditure.\textsuperscript{1907}

The discussion of age-related allowances and the blind person’s allowance are made under this heading because:

(a) they are personal allowances, and

(b) they are designed to help reduce tax burdens on those who are likely to have less taxable capacity, similar to the basic personal allowance and allowances for married couples and for children.

\textsuperscript{1907} HM Treasury: Tax Ready Reckoner and Tax Relief November 2002, 
http://www.hm-treasury.gov.uk/media/D88B5/adtrt02.pdf
Appendix IV to Chapter Three

Example 3.3

In 2004-05, Dan, aged under 65, earns £6,765. If there were no basic allowance, he would be taxed at the starting rate of 10% for the first £2,020 of his income and at the basic rate of 22% for the next £4,745. As a consequence of the basic allowance, Dan will be taxed at only the starting rate for the remainder after the deduction of an allowance ((6,765-4,745-2,020) x 10%). The basic allowance helps reduce Dan’s taxable income, and therefore his tax liability is reduced by £1,043.90 because the basic rate of 22% will not apply to £4,745.

Example 3.4

If Jim, aged 65, has a total income of £19,000, his allowance will be reduced by £50 (19,000-18,950 = 100/2 = 50). Consequently, his allowance is £6,780 (6,830-50). Meanwhile, if Tom, aged 66, has total income of £30,000, his allowance (£6,830) will be reduced by £5,550 (30,000-18,900 = 11,100/2 = 5,550) to £1,280 (6,830-5,550). Nevertheless, Tom will receive £4,745 because the age-related allowance cannot fall below the basic personal allowance.
Example 3.5

Suppose that the basic allowance is increased from £4,615 to £10,000 in 2003-04. The following are the effects of the increased amount (£5,385) on reductions in the tax liabilities of different income groups.

(1) Dan whose total income is below the threshold gets nothing from the increase.

(2) Before the increase, Jan has a total income of £6,575, her taxable income being £1,960.\(^{1908}\) She pays £196 in tax.\(^{1909}\) Her average tax rate is 2.98%.\(^{1910}\) The ratio of the increase in the basic allowance to her total income is about 4 to 5 (5385:6575). When the allowance is increased, she will pay no tax because her total income is less than the allowance. Her average tax rate is 0%. The proportionate reduction in her tax liability is 2.98%.\(^{1911}\) Or, the amount of tax benefit received from the higher allowance is £196.

(3) Before the increase, Tom has a total income of £35,115, and his taxable income is £30,500.\(^{1912}\) He pays £6,474.80 in tax.\(^{1913}\) His average tax rate is 18.43%.\(^{1914}\) The ratio of the increase in the allowance to his total income is about 0.7 to 5 (5385:35115). When the allowance is increased, his taxable income will be reduced to £25,115.\(^{1915}\) He will pay £5,290.10 in tax.\(^{1916}\) His average tax rate will be 15.06%.\(^{1917}\) The proportionate reduction in his tax liability resulting from the higher allowance is 3.37%.\(^{1918}\) Or, the amount of tax benefit received is £1,184.70.\(^{1919}\) Similarly, an increase in the allowance of £5,385 reduces a basic-rate taxpayer’s liability by £1,184.70.\(^{1920}\)

\(^{1908}\) (6,575-4,615) \\
\(^{1909}\) (1,960x10%) \\
\(^{1910}\) (196/6,575) \\
\(^{1911}\) (2.98%-0%) \\
\(^{1912}\) (35,115-4,615) \\
\(^{1913}\) (1,960x10%)+(28,540x22%) \\
\(^{1914}\) (6,474.80/35,115) \\
\(^{1915}\) (35,115-10,000) \\
\(^{1916}\) (1,960x10%)+(23,115x22%) \\
\(^{1917}\) (5,290.10/35,115) \\
\(^{1918}\) (18.43%-15.06%) \\
\(^{1919}\) (6,474.80-5,290.10) \\
\(^{1920}\) (5,385x22%)
Before the increase in the basic allowance, Jack has a total income of £40,500, and his taxable income is £35,885. He pays £8,628.80 in tax. His average tax rate is 21.30%. The ratio of the increase to his total income is about 0.6 to 5 (5385:40500). And when the allowance is increased, his taxable income will be reduced to £30,500. He will pay £6,474.80 in tax. His average tax rate is 15.98%. The proportionate reduction in his tax liability will be 5.32% or, the amount of tax benefit will be £2,154. Similarly, an increase in the allowance of £5,385 reduces a higher-rate taxpayer's liability by £2,154.

From (4), if the basic allowance is increased from £4,615 to £6,575 (not £10,000) in 2003-04 (assuming this amount of £6,575 can cover the real cost of living standard), Jack will have taxable income of £33,925. He will pay £7,844.80 in tax. The average tax rate is 19.36%, which is a reduction of 1.94%.

From the above, the following conclusions can be reached.

(a) As the basic allowance is given at a fixed amount, the ratio of the allowance to the total income decreases as income rises. This is seen in examples (2), (3) and (4). Because of this, it is argued that the allowance is an means of helping low incomes and relatively benefits low incomes more than high incomes. Additionally, it is argued that when an increase in the allowance is made, this promotes income redistribution. Similarly, Collard notes that “combined with exemption levels for taxation, benefits in cash are very effective in redistributing income.” These arguments are not completely true. As Kay notes,
"It is widely accepted that an important objective for tax policy is to increase tax thresholds in order to relieve the poverty..."\(^{[1938]}\) Surely an increase in the tax threshold must be of help to the low paid? This view reflects misunderstanding. It should be appreciated that although an increase in the threshold does relieve some people from income tax altogether, the greater benefit goes to those who continue to pay tax. If an allowance of £2,000 is increased to £2,500, someone who earns £3,000 has his taxable income reduced by £500; someone whose income is £2,100 is relieved of tax only on £100.\(^{[1939]}\)

(b) It can also be said that the rich gain more tax benefits than the poor in terms of a reduction in the tax burden. The allowance increase reduces taxable incomes (of both low- and high-income earners) which will be subject to different marginal rates. Therefore, a reduction in taxable income subject to the high marginal rate will mean a greater reduction in tax burden than one subject to the low marginal rate, as high-income earners are subject to high marginal rates than low-income earners. This can be seen from the proportion and the amount of reduction in the tax burden in (2)-(4). McCrae explains the greater reduction in the rich’s tax burdens in another way as follows:

"... an increase in the personal allowance disproportionately benefits taxpayers with higher marginal rates. This is because the allowance increase not only raises the point at which people first become liable to pay tax but also increases the lower- and basic-rate limits. This implies that higher-rate taxpayers receive greater cash gains than basic-rate taxpayers, who in turn receive more than lower-rate taxpayers."\(^{[1940]}\)


\(^{[1939]}\) Ibid, p.33

(c) In comparing the effect of the big increase in (4) with that of the modest increase in the allowance in (5), it seems that the former reduces the degree of progressivity more than the latter, through the reduction in the higher-rate taxpayer’s average tax rate.
Appendix VI to Chapter Three

Example 3.6

In 1997, Somchai earned 30,000 baht, and Somsri earned 130,000 baht. The basic allowance for this year was 30,000 baht. That year, Somchai paid no tax. His ATR was 0.0%. Somsri paid 5,000 baht in tax. Her ATR was 3.84%.

Supposing that the average rate of price inflation is 10% per annum. In 1998, Somchai’s and Somsri’s earnings were increased by their employers by 10% to mitigate the effect of price inflation and to cover the cost of living. In this situation, their money/nominal incomes rose, but their real incomes remained constant. Meanwhile, the Thai government did not increase the allowance to keep pace with price inflation. That year, Somchai became a taxpayer of 150 baht. This is because his nominal income of 3,000 baht (from the gross income of 33,000 baht) was over the tax threshold and taxed at 5%. His ATR was 0.45%, rising by 0.45%. Meanwhile, Somsri paid 6,300 baht in tax. Somsri’s ATR was 4.40%, rising by 0.56%. Somsri’s tax burden was increased by 1,300 baht compared to last year. This is because her nominal income of 13,000 Baht (from the gross income of 143,000 baht) was brought into a 10% higher MTR.

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1941 Other deductions and a tax exemption of the first 100,000 baht of net/taxable income (or a 0% tax on 100,000 Baht) are not taken into consideration in this example.
1942 (30,000x0%)+(100,000x5%)
1943 (30,000x0%)+(100,000x5%)+(13,000x10%)
**Appendix VII to Chapter Three**

**Table 3.2**

<table>
<thead>
<tr>
<th>Categories of income</th>
<th>Types of income</th>
<th>Deductible percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) and (2)</td>
<td>income derived from employment and derived by virtue of a post, office of employment or of service rendered</td>
<td>40% but not exceeding 60,000 Baht in total</td>
</tr>
<tr>
<td>(3)</td>
<td>copyright income</td>
<td>40% but not exceeding 60,000 Baht in total</td>
</tr>
<tr>
<td>(5)(b)</td>
<td>income from breach of a hire-purchase contract</td>
<td>20%*</td>
</tr>
<tr>
<td>(5)(c)</td>
<td>income from breach of a contract of installment sale</td>
<td>20%*</td>
</tr>
<tr>
<td>(8)</td>
<td>income from sale of immovable properties acquired by bequest or by way of gift</td>
<td>50%*</td>
</tr>
<tr>
<td>(5)(a)</td>
<td>rental income</td>
<td>ranging from 10% to 30%*, depending on the type of leased property</td>
</tr>
<tr>
<td>(6)</td>
<td>income from healing arts</td>
<td>60%*</td>
</tr>
<tr>
<td>(6)</td>
<td>income from other liberal professions</td>
<td>30%*</td>
</tr>
<tr>
<td>(7)</td>
<td>income of a contractor</td>
<td>70%*</td>
</tr>
<tr>
<td>(8)</td>
<td>income from other business activities</td>
<td>ranging from 40% to 85%*, depending on the type of business activity</td>
</tr>
<tr>
<td>(8)</td>
<td>income from sale of immovable property acquired not with a view to trading or profit</td>
<td>ranging from 50% to 92%*, depending on the period occupied</td>
</tr>
</tbody>
</table>

Remark: * No ceiling is imposed upon these.

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1944 Source: The Revenue Code, Royal Decree (No.11), and Royal Decree (No.165)
Appendix VIII to Chapter Three

Example 3.7

Joy and Jib are medical doctors. Jib receives more tax benefit from a 60% standard deduction than Joy who earns less. In 2005, Joy earns 500,000 baht. After claiming a 60% standard deduction (or 300,000 baht) as expenses, she has a taxable income of 200,000 baht. She pays 10,000 baht in tax. Her ATR is 2%. If a 60% standard deduction were not allowed as expenses, she would pay 40,000 baht in tax. Her ATR would be 8%. The proportionate reduction in her tax liability resulting from the standard deduction is 6%. Or, the amount of tax benefit received is 30,000 baht. Similarly, a 60% standard deduction reduces her tax liability by 30,000 baht.

Meanwhile, Jib earns 4,000,000 baht. After claiming a 60% standard deduction (or 2,400,000 baht) as expenses, he has a taxable income of 1,600,000 baht. He pays 320,000 baht in tax. His ATR is 8%. If a 60% standard deduction were not allowed as expenses, he would pay 1,040,000 baht in tax. His ATR would be 26%. The proportionate reduction in his tax liability resulting from the standard deduction is 18%. Or, the amount of tax benefit received is 720,000 baht. Similarly, a 60% standard deduction reduces his tax liability by 720,000 baht.

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Other deductions and personal allowances are not taken into account in this example.

\[
\begin{align*}
1945 & \quad \text{(500,000x60%)} \\
1946 & \quad \text{(500,000–300,000)} \\
1947 & \quad \text{(100,000x0%)+(100,000x10%)} \\
1948 & \quad \text{(10,000/500,000)} \\
1949 & \quad \text{(100,000x0%)+(400,000x10%)} \\
1950 & \quad \text{(40,000/500,000)} \\
1951 & \quad \text{(8%–2%)} \\
1952 & \quad \text{(40,000–10,000)} \\
1953 & \quad \text{(500,000x60%=300,000)x10%} \\
1954 & \quad \text{(4,000,000x60%)} \\
1955 & \quad \text{(4,000,000–2,400,000)} \\
1956 & \quad \text{(100,000x0%)+(400,000x10%)+(500,000x20%)+(600,000x30%)} \\
1957 & \quad \text{(320,000/4,000,000)} \\
1958 & \quad \text{(100,000x0%)+(400,000x10%)+(500,000x20%)+(3,000,000x30%)} \\
1959 & \quad \text{(1,040,000/4,000,000)} \\
1960 & \quad \text{(26%–8%)} \\
1961 & \quad \text{(1,040,000–320,000)} \\
1962 & \quad \text{(4,000,000x60%=2,400,000)x30%}
\end{align*}
\]
Appendix IX to Chapter Three

The ITTOIA 2005 sets out special rules on disallowed expenses. The special rules include, but are not limited to, a debt owed to the person carry on the trade, profession or vocation\textsuperscript{1964}, expenses incurred in providing entertainment or gifts in relation to the trade, profession or vocation\textsuperscript{1965}, expenses incurred on the hiring of a car or motor cycle\textsuperscript{1966}, royalties paid for the use of patents\textsuperscript{1967}, social security contributions paid by any person\textsuperscript{1968}, penalties, interest and VAT surcharges\textsuperscript{1969}, and crime-related payments.\textsuperscript{1970}

The ITTOIA 2005 also sets out special rules allowable expenses. The special rules include, but are not limited to, bad debts\textsuperscript{1971}, employee benefit contributions\textsuperscript{1972}, costs for entertaining employees\textsuperscript{1973}, expenditure on business entertainment or gifts provided in the ordinary course of the trade in order to advertise to the public\textsuperscript{1974}, gifts to employees\textsuperscript{1975}, gifts to a charity\textsuperscript{1976}, an employer’s social security contribution\textsuperscript{1977}, pre-trading expenses\textsuperscript{1978}, incidental costs of obtaining finance (e.g. expenses on fees, commissions etc.)\textsuperscript{1979}, expenditure on replacement and alteration of trade tools\textsuperscript{1980}, a payment which is treated as earnings of an employee\textsuperscript{1981}, expenses attributable to the employee’s employment during the period for which the employee’s services are made available to the charity or educational establishment\textsuperscript{1982}, contributions to agents’ expenses in connection with payroll deduction schemes\textsuperscript{1983}, payments in respect of the employee’s employment wholly in

\textsuperscript{1964} Section 35 (1), ITTOIA 2005
\textsuperscript{1965} Section 45 (1), ITTOIA 2005
\textsuperscript{1966} Section 48 (1), ITTOIA 2005
\textsuperscript{1967} Section 51, ITTOIA 2005
\textsuperscript{1968} Section 53 (1), ITTOIA 2005
\textsuperscript{1969} Section 54, ITTOIA 2005
\textsuperscript{1970} Section 55, ITTOIA 2005
\textsuperscript{1971} Section 35 (1) (a), ITTOIA 2005
\textsuperscript{1972} Section 38 (1) (b), ITTOIA 2005
\textsuperscript{1973} Section 46 (3) (a) (b), ITTOIA 2005
\textsuperscript{1974} Section 46 (2) (a) (b), Section 47 (2) (a) (b), ITTOIA 2005
\textsuperscript{1975} Section 47 (4) (a) (b), ITTOIA 2005
\textsuperscript{1976} Section 47 (5) (a), ITTOIA 2005
\textsuperscript{1977} Section 53 (2), ITTOIA 2005
\textsuperscript{1978} Section 57, ITTOIA 2005
\textsuperscript{1979} Section 58 (1) (2), ITTOIA 2005
\textsuperscript{1980} Section 68 (1), ITTOIA 2005
\textsuperscript{1981} Section 69 (1), ITTOIA 2005
\textsuperscript{1982} Section 70 (2) (3), ITTOIA 2005
\textsuperscript{1983} Section 72 (2), ITTOIA 2005
the employer's trade$^{1984}$, expenses of a revenue nature on research and development related to the trade$^{1985}$, payments to approved scientific research association, universities etc.$^{1986}$, expenses incurred in obtaining for the purposes of the trade the grant of a patent or the extension of a patent's term, or the registration of a design or trade mark$^{1987}$, payments to the Export Credits Guarantee Department$^{1988}$, expenses connected with foreign trades$^{1989}$, and the amount of the deemed employment payment.$^{1990}$

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$^{1984}$ Section 77, ITTOIA 2005  
$^{1985}$ Section 87 (1), ITTOIA 2005  
$^{1986}$ Section 88 (1), ITTOIA 2005  
$^{1987}$ Section 89 (1), Section 90 (1), ITTOIA 2005  
$^{1988}$ Section 91, ITTOIA 2005  
$^{1989}$ Section 72 (2), ITTOIA 2005  
$^{1990}$ Section 163 (2), ITTOIA 2005
Appendix X to Chapter Three

Section 42 of the RCT, Ministerial Regulations, and Royal Decrees exempt many items of income from PIT. Tax exemptions under Thai law include those relating to:

(a) the avoidance of double taxation,
(b) inheritance,
(c) capital gains,
(d) savings in bank accounts or savings products,
(e) expenses for the purpose of employment or service rendered,
(f) welfare money and benefits in kind of civil servants and employees of state enterprises,
(g) benefits in kind of employees of private enterprises,
(h) income and benefits in cash for state service,
(i) medical expenses and casualty losses,
(j) education and research,
(k) prizes,
(l) the promotion of certain business activities,
(m) compensation,
(n) compensatory benefits,
(o) moral obligation, ceremonies and traditions,
(p) transfers of immovable property without payment,
(q) stimulation of economic recovery of the country from recession by persuading people to invest in immovable property,
(r) particular groups of foreigners working in Thailand,
(s) savings in pension or retirement funds, and
(t) savings through the life-insurance policies.

Exemptions under (a) include (i) income obtained from an estate which is liable to the PIT, (ii) share of profits obtained from an ordinary partnership or a non-juridistic body of persons who are subject to the PIT, (iii) income from the sale of tobacco products on which the Thai Tobacco Monopoly has paid taxes for sellers at all stages, and (iv) the following assessable income:
• the difference between the redemption value and the selling price of bills or debt instruments issued by a juristic company, partnership or any other juristic person and sold for the first time at a price lower than redemption value (but not including the case where a taxpayer liable to the PIT is the first holder), provided that a deduction of income tax at source has been made from the income of the first holder,

• gains obtained from the transfer of bills or debt instruments (which bear no interest) issued by a juristic company, partnership or any other juristic person, provided that a deduction of income tax at source has been made from the first holder’s income,

• interest received from bills or debt instruments issued by a juristic company, partnership or any other juristic person (specifically those arising before the earner becomes the holder of bills or debt instruments), provided that a deduction of income tax at source has been made from the interest of the whole amount.

**Exemptions under (b)** include (i) corpus of a legacy or inheritance, (ii) proceeds from the sale of movable property acquired by inheritance, and (iii) proceeds from the sale of immovable property acquired by inheritance or gift which is located outside the Bangkok Metropolis, municipalities, sanitation district, Pattaya Township, or any other local authority subject to a specific law, provided that the exemption is restricted to the portion of sale not exceeding 200,000 baht for the tax year.

**Exemptions under (c)** include (i) proceeds from the sale of movable property acquired not for trading or profit, (ii) gains on the sale of securities listed on the Stock Exchange of Thailand (not including gains from sales of debentures or bonds), (iii) proceeds from the sale of investment units in a mutual fund, (iv) benefit derived where a limited public company or limited company merges with another or transfers all business operations to another, valued as income exceeding capital, (v) benefit derived from the merger of banks and/or of finance, security or credit foncier companies, valued as income exceeding capital, (vi) proceeds from the sale of immovable property which is acquired for residential purpose within the year B.E. 2540 (1997) and sold not less than one year after acquisition but not beyond the year
B.E. 2550 (2007), and (vii) proceeds from the sale of immovable property which is acquired for residential purposes, provided that within one year before or after such sale, the seller purchases a new immovable property for residential purposes (proceeds which are exempt are equal to the price of such sale but not exceeding the price of a new property).

**Exemptions under (d)** include (i) interest from government-saving lotteries, (ii) interest on demand deposit with the Government Savings Bank, (iii) interest on a savings deposit received from a co-operative, (iv) interest on a savings deposit with a bank in Thailand which is repayable on demand (only in the case where the total amount of interest received by a taxpayer does not exceed 20,000 baht throughout the tax year), (v) interest on bonds issued by a government organization or by a financial institution organized by a specific Thai law to lend money to promote agriculture, commerce or industry (only if the bonds are sold abroad and the taxpayer is not a Thai resident), (vi) interest on a savings deposit with the Bank for Agriculture and Agricultural Co-operatives, (vii) interest on Government Savings Bank’s bonds in the Deposits for Nation batch, and (viii) interest on deposits with a bank or a savings co-operative in Thailand (provided that such interest originates from monthly deposits for an uninterrupted period of not less than 24 months from the starting date, with each deposit being equal but not exceeding 25,000 baht per month and not exceeding 600,000 baht in total).

**Exemptions under (e)** include (i) per diem or transport expenses of an employee, a holder of office or a person rendering services (provided that such expenses are spent necessarily, exclusively and wholly in the performance of his/her duty), (ii) transport expenses and travelling per diem of civil servants at the fixed government rates, and (iii) transport expenses which an employee receives for moving to the place of employment for the first time or for returning to the place of origin after termination of employment.

**Exemptions under (f)** include (i) special post allowance, house-rent allowance and rent free residence granted to an official of a Thai legation or consulate abroad, (ii) income paid by a government authority in the form of house rent allowance or monetary value of rent-free residence, allowances for children, child education, hardship area, cost of living, or overtime meals, (iii) house rent
allowance received from state enterprises in an amount actually paid or monetary value of rent-free residence provided by state enterprises, (iv) allowances for children, child education, hardship area or cost of living received from state enterprises.

**Exemptions under (g)** include income computed from the value of uniforms which an employee receives from his employer not exceeding two sets and one outer coat per employee per year.

**Exemptions under (h)** include (i) special pension, special gratuity, inherited pension or inherited gratuity, and (ii) income paid by the government for the purpose of maintaining internal security, the disbursement of which has been authorized by the Ministry of Finance, (iii) rewards paid by a government authority for the purpose of preventing offences in connection with taxes and duties, and (iv) rewards paid by a government authority for the purpose of criminal suppression.

**Exemptions under (i)** include (i) actual medical expenses paid by the employer to or on behalf of the employee, the employee's spouse, parents or dependent children in relation to treatment in Thailand, (ii) medical expenses paid in relation to the treatment of an employee who occasionally performs his/her duty abroad, provided that such expenses are spent wholly for such a purpose, and (iii) indemnity for wrongful acts, sums derived from insurance or from a funeral assistance scheme.

**Exemptions under (j)** include (i) awards for the purpose of education or scientific research, (ii) fees paid by the government or its educational institutions for attending board or committee meetings, for teaching, or for conducting examinations, (iii) income from the operation of private schools organized under the law governing private schools, and (iv) dividends and shares of profits derived from a juristic company or partnership carrying on the business of a private school under the law governing private schools or the business of a private college or university under the law governing private colleges and universities.

**Exemptions under (k)** include (i) government lottery and saving prizes, (ii) prizes given by a government authority in a contest or competition to persons other than professional contestants or competitors, (iii) Red Cross lottery prizes, and (iv)
prizes from the Savings Card of the Bank for Agriculture and Agricultural Cooperatives.

**Exemptions under (l)** include (i) income from the sale of Red Cross lotteries or discounts received on purchase thereof, (ii) proceeds from the sale of duty and postage stamps or the discounts obtained on the purchase thereof, (iii) income or discounts received from the sale of government lotteries, and (iv) income derived by a farmer from the sale of rice cultivated by himself and/or his family.

**Exemptions under (m)** include (i) compensation under the law governing expropriation of immovable property (for expropriated land and other immovable property situated thereon only), (ii) compensation (not exceeding remuneration or salary for the last 300 days of employment and not exceeding 300,000 Baht) received by an employee under the law governing labour protection or by a worker under the law governing State Enterprise Workers’ Relations (but not including compensation for retirement or termination of employment contract), and (iii) interest received from the Revenue Department in connection with a tax refund.

**Exemptions under (n)** include compensatory benefits received by an insured person from the social security fund under the law governing social security.

**Exemptions under (o)** include (i) maintenance income derived under moral obligation, and (ii) gifts made in a ceremony or other occasions in accordance with established custom.

**Exemptions under (p)** include (i) income from the transfer of ownership or possessory rights in immovable property without any consideration to the taxpayer’s lawful child or to specified royal foundations, and (ii) income from the transfer of ownership or possessory rights in land without any consideration to Temples, Churches or Mosques.

**Exemptions under (q)** include (i) income actually paid (but not exceeding 200,000 baht) for the buying of building, building and land, apartment or land with the hire of building constructors within one year from the date of 6th September, 2001, (ii) interest on a loan paid to bank or other financial institution, life assurance company, cooperatives or employer, for the borrowing of money to buy, hire-purchase or build residence by mortgaging the residence so bought or built as security against such loan, specifically the part exceeding 10,000 baht but not
exceeding 40,000 baht, (iii) income paid as interest on a loan to the Civil Service Gratuity and Pension Fund to buy, hire-purchase or build a residence, the amount not exceeding 50,000 baht, and (iv) income paid as interest on a loan to buy, hire-purchase or build a residence by mortgaging the residence so bought or built as security against such loan not exceeding 50,000 baht, and specifically that paid to:

- an immovable property mutual fund for rectifying problems in financial institutions,
- a mutual fund for rectifying problems in financial institutions, or
- a special purpose juristic person established for conversion of assets as securities.

**Exemptions under (r)** include income (i) obtained by a foreign student in Thailand from temporary employment during a semester break (under the principle of reciprocal treatment), (ii) which a foreign government official performing his/her duty in Thailand receives from his/her own government (under the principle of reciprocal treatment), (iii) which an employee of the International Red Cross receives for performing his/her duty in Thailand, (iv) which an alien not residing in Thailand receives from an intergovernmental commission on resettlement for performing his/her duty in Thailand, (v) which an alien not residing in Thailand receives from his/her own government for performing his/her duty in rendering assistance to Indochinese refugees in Thailand, (vi) which experts of the European Community who are aliens not residing in Thailand receive for working in Thailand under the assistance extended to Thailand by the European Community, (vii) received by the officers of the International Forestry Agricultural Research Centre (the "IFARC"), who are aliens not domiciled in Thailand, working in Thailand under the Agreement between the Thai Government and the IFARC.

**Exemptions under (s)** include (i) income paid by an employee as a contribution to the Provident Fund at a rate not exceeding 15% of that part of the wage which exceeds 10,000 baht, but not exceeding 290,000 baht for the tax year, (ii) money or any benefit derived from the Provident Fund upon termination of employment on retirement, incapacity or death (iii) interest on provident funds paid by state enterprises, (iv) income paid by a civil servant as a contribution to the Civil Servant Pension Fund, but not exceeding 300,000 baht for the tax year, (v) money or
any other benefit derived by an employee from the Civil Servant Pension Fund upon leaving the service on retirement, disability, replacement or death, (vi) income paid by a headmaster or teacher of a private school as a contribution to the Welfare Fund, but not exceeding 300,000 baht for the tax year, (vii) money or any other benefit derived from the Welfare Fund upon beneficiaries retiring from work or because of disability or death, (viii) assessable income under Section 40 (1), (2), (6), (7) and (8) of the RCT and assessable income of copyright category that is not inherited through legacy paid for buying investment units in the Retirement Mutual Fund, not exceeding 15 percent of the income, and not exceeding 300,000 baht for the tax year, and (ix) money or any benefit derived from the Retirement Mutual Fund for reasons of retirement, disability, or death.

Exemptions under (i) include income paid as life insurance premiums in the actual amount, specifically the part exceeding 10,000 baht but not exceeding 40,000 baht.

Tax exemptions under UK law include those relating to:
(a) social security benefits,
(b) savings in bank accounts, savings products, and savings through the purchase of shares or securities,
(c) savings through personal pension schemes,
(d) savings through life insurance and life annuity compensation,
(e) education, research and training,
(f) prizes and winnings,
(h) benefits in cash and in kind relating to employment,
(i) income and benefits in cash for state service,
(j) welfare money to civil servants and politicians,
(k) moral obligation, ceremonies and traditions,
(l) casualty losses,
(m) Non-UK resident taxpayers,
(n) an annual payment, and
(o) other purposes.
Exemptions under (a) are divided into three groups.

(aa) UK social security benefits wholly exempt from income tax: Table B which include (i) attendance allowance, (ii) back to work bonus, (iii) bereavement payment, (iv) child benefit, (v) child’s special allowance, (vi) child tax credit, (vii) council tax benefit, (viii) disability living allowance, (ix) guardian’s allowance, (x) housing benefit, (xi) industrial injuries benefit, (xii) pensioner’s Christmas bonus, (xiii) payments out of the social fund, (xiv) severe disablement allowance, (xv) state maternity allowance, (xvi) state pension credit, (xvii) working tax credit, (xviii) compensation payments where child support reduced because of a change in legislation, and (xix) payments to reduce under-occupation by housing benefit claimants.1991

(ab) UK Social security benefits exempt from income tax under conditions which include

(i) long-term incapacity benefit if -
   (a) a person is entitled to the benefit for a day of incapacity for work which falls in a period of incapacity for work which is treated for the purposes of that benefit as having begun before 13th April 1995, and
   (b) the part of that period which is treated as having fallen before that date includes a day for which that person was entitled to invalidity benefit1992,

(ii) short-term incapacity benefit unless it is payable at the higher rate1993,

(iii) income support unless –
   (a) the income support is payable to one member of a married or unmarried couple (“the claimant”), and
   (b) section 126 of Social Security Contributions and Benefits Act 1992 (SSCBA 1992) or section 125 of SSCB(NI)A 1992 (trade disputes) applies to the claimant but not to the other member of the couple1994,

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1991 Section 677 (1), ITEPA 2003
1992 Section 663 (1), ITEPA 2003
1993 Section 664 (1), ITEPA 2003
1994 Section 665 (1), ITEPA 2003
(iv) a part of income support which is attributable to a child maintenance bonus\textsuperscript{1995},
(v) amounts of income support in excess of the claimant's taxable maximum for that period\textsuperscript{1996},
(vi) a part of a jobseeker's allowance which is attributable to a child maintenance bonus\textsuperscript{1997},
(vii) amounts of jobseeker's allowance in excess of the claimant's taxable maximum for that period\textsuperscript{1998}, and
(viii) a part of a taxable benefit listed in Table A which is attributable to an increase in respect of a child\textsuperscript{1999}.

\textbf{(ac)} foreign benefits exempt from income which include

(i) a taxable foreign benefit if the corresponding UK benefit is exempt income\textsuperscript{2000}, and
(ii) a benefit which is payable under the law of a country or territory outside the UK if it is substantially similar in character to UK Social security benefits wholly exempt from income: Table B\textsuperscript{2001}.

\textbf{Exemptions under (b) } include (i) the first £70 of interest on the National Savings Bank (NSB) ordinary accounts\textsuperscript{2002}, (ii) income from authorised savings certificates\textsuperscript{2003}, (iii) income from authorised Ulster Savings Certificates\textsuperscript{2004}, (iv) income from individual investment plans\textsuperscript{2005}, (v) interest payable under a certified SAYE (Save-As-You-Earn) savings arrangement\textsuperscript{2006}, (vi) venture capital trust dividend\textsuperscript{2007}, (vii) profits from a FOTRA security\textsuperscript{2008}, (viii) interest on certain government securities payable to persons not ordinarily resident in the UK\textsuperscript{2009}, (ix)\

\textsuperscript{1995} Section 666, ITEPA 2003 \\
\textsuperscript{1996} Section 667 (1), ITEPA 2003 \\
\textsuperscript{1997} Section 670, ITEPA 2003 \\
\textsuperscript{1998} Section 671 (1), ITEPA 2003 \\
\textsuperscript{1999} Section 676, ITEPA 2003 \\
\textsuperscript{2000} Section 681 (1), ITEPA 2003 \\
\textsuperscript{2001} Section 681 (2), ITEPA 2003 \\
\textsuperscript{2002} Section 691 (1), ITTOIA 2005 \\
\textsuperscript{2003} Section 692 (1), ITTOIA 2005 \\
\textsuperscript{2004} Section 693 (1), ITTOIA 2005 \\
\textsuperscript{2005} Section 694 (1), ITTOIA 2005 \\
\textsuperscript{2006} Section 702 (1), ITTOIA 2005 \\
\textsuperscript{2007} Section 709 (1), ITTOIA 2005 \\
\textsuperscript{2008} Section 714 (1), ITTOIA 2005 \\
\textsuperscript{2009} Nightingale, op.cit.(note65), pp.70-71
interest or bonus on Tax-Exempt Special Savings Accounts (TESSAs), income or returns from Individual Savings Accounts (ISAs), (xi) income (e.g. dividends) received from the securities held in Personal Equity Plans (PEPs), (xii) income from Inter-American Development Bank securities, and (xiii) income from securities issued by designated international organisations.

**Exemptions under (c)** include lump sums received under approved pension schemes, i.e. occupational pension schemes, personal pension schemes, and stakeholder pension schemes.

**Exemptions under (d)** include (i) bonuses and profits on life assurance policies, and (ii) an annuity payment made under a purchased life annuity.

**Exemptions under (e)** include (i) annuity payments if they are made under an annuity purchased or provided under an award of compensation made under the Criminal Injuries Compensation Scheme, (ii) an annual payment under insurance policy if the payment is a benefit provided under so much of the policy as insures against a health or employment risk, (iii) redundancy payments, (iv) the first £30,000 of compensation for loss of employment, and (v) benefits payable under unemployment insurance policies.

**Exemptions under (f)** include (i) income from a scholarship held by an individual in full-time education at a university, college, school or other educational establishment, (ii) exhibitions, bursaries, or any other educational endowment, (iii) a payment that is made by way of training grant under the “New Deal 50plus” scheme, (iv) payments under employment zone programme, and (v) the

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2010 Homer and Burrows, op.cit.(note1665), p.7
2011 ibid. p.7
2012 Lymer et al., op.cit.(note120), p.3/14
2013 Section 773, ITTOIA 2005
2014 Section 774, ITTOIA 2005
2015 Nightingale, op.cit.(note65), p.71; Lymer, op.cit.(note120),p.4/5
2016 Lymer, op.cit.(note120), pp.3/15, 5/26
2017 Homer and Burrows, op.cit.(note1665), p.7
2018 Section 717(1), ITTOIA 2005
2019 Section 732 (1), ITTOIA 2005
2020 Section 735 (1), ITTOIA 2005
2021 Section 309, ITEPA 2003
2022 Section 148, TA1988
2023 Homer and Burrows, op.cit.(note1665), p.7
2024 Section 776, ITTOIA 2005
2025 Section 331, TA1988
2026 Section 781, ITTOIA 2005
payment or reimbursement of retraining course expenses\textsuperscript{2028}, (vi) the provision for an employee of work-related training or any benefit incidental to such training\textsuperscript{2029}, (vii) the payment or reimbursement to or in respect of an employee of the cost of work-related training or of any benefit incidental to such training\textsuperscript{2030}, (viii) income from a current or former employment arises by virtue of the provision to the employee of individual learning account training\textsuperscript{2031}, and (ix) reserve and auxiliary forces’ training allowances\textsuperscript{2032}.

\textbf{Exemptions under (g)} include (i) gambling profits, (ii) lottery winnings, and (iii) premium bond prizes\textsuperscript{2033}.

\textbf{Exemptions under (h)} include

(i) approved mileage allowance payments (amounts paid to an employee for expenses related to the employee’s use of such a vehicle for business travel)\textsuperscript{2034},

(ii) approved passenger payments made to an employee for the use of a car or van\textsuperscript{2035},

(iii) the provision of workplace parking for an employee\textsuperscript{2036},

(iv) the payment or reimbursement of expenses incurred in connection with the provision for or the use by an employee of workplace parking\textsuperscript{2037},

(v) modest private use of heavy goods vehicles\textsuperscript{2038},

(vi) the discharge of any liability of an employee in connection with a taxable car or van or an exempt heavy goods vehicle\textsuperscript{2039}.

\textsuperscript{2027} Section 782, ITTOIA 2005
\textsuperscript{2028} Section 311, ITEPA 2003
\textsuperscript{2029} Section 250 (1) (a), ITEPA 2003
\textsuperscript{2030} Section 250 (1) (b), ITEPA 2003
\textsuperscript{2031} Section 255 (1), ITEPA 2003
\textsuperscript{2032} Section 298, ITEPA 2003
\textsuperscript{2033} Nightingale, op.cit.(note 65), p.71
\textsuperscript{2034} Section 229 (1) (2), ITEPA 2003
\textsuperscript{2035} Section 233 (1), ITEPA 2003
\textsuperscript{2036} Section 237 (1), ITEPA 2003
\textsuperscript{2037} Section 237 (2), ITEPA 2003
\textsuperscript{2038} Section 238, ITEPA 2003
\textsuperscript{2039} Section 239 (1), ITEPA 2003
(vii) a payment to an employee in respect of expenses incurred by the employee in connection with a taxable car or van or an exempt heavy goods vehicle 2040,
(viii) a benefit connected with a taxable car or van or an exempt heavy goods vehicle 2041,
(ix) incidental overnight expenses and benefits 2042,
(x) the provision for employees of a works transport service 2043,
(xi) the provision of financial or other support for a public transport road service 2044,
(xii) the provision for an employee of a cycle or cyclist's safety equipment 2045,
(xiii) benefits and payments where a strike or other industrial action disrupts a public transport service normally used by an employee 2046,
(xiv) the provision of transport for a disabled employee, or the payment or reimbursement of expenses incurred on such transport 2047,
(xv) the provision of transport or the payment or reimbursement of expenses on transport for the journey home of employees who are occasionally required to work until 9 p.m. or later 2048,
(xvi) the provision of sporting or other recreational facilities to an employee 2049,
(xvii) an annual party or similar function provided for employees if the cost per head of the party or function does not exceed 75 pounds 2050,
(xviii) the provision of entertainment for an employee where the person providing the entertainment is not the employer or a person connected with the employer 2051,

2040 Section 239 (2), ITEPA 2003
2041 Section 239 (4), ITEPA 2003
2042 Section 240 (1) (2), ITEPA 2003
2043 Section 242 (1), ITEPA 2003
2044 Section 243 (1), ITEPA 2003
2045 Section 244 (1), ITEPA 2003
2046 Section 245 (1), ITEPA 2003
2047 Section 246 (1), ITEPA 2003
2048 Section 248, ITEPA 2003
2049 Section 261, ITEPA 2003
2050 Section 264, ITEPA 2003
(xix) non-cash vouchers for exempt benefits, such as parking provision, works transport services, annual parties and functions\textsuperscript{2052},

(xx) credit-tokens used for exempt benefits, such as third party entertainment\textsuperscript{2053},

(xi) vouchers and tokens for incidental overnight expenses\textsuperscript{2054},

(xxii) a non-cash voucher or a credit-token for obtaining goods or services in connection with a taxable car or van or an exempt heavy goods vehicle\textsuperscript{2055},

(xxiii) small gifts of vouchers and credit-tokens from third parties\textsuperscript{2056},

(xxiv) removal benefits and expenses in connection with a changes of the employee’s residence\textsuperscript{2057},

(xxv) accommodation benefits of ministers of religion\textsuperscript{2058},

(xxvi) the provision for an employee who has a permanent workplace at an offshore installation of transfer transport, related accommodation and subsistence, or local transport; or the payment or reimbursement of reasonable expenses incurred by such an employee on such transport or accommodation and subsistence\textsuperscript{2059},

(xxvii) the provision of coal or smokeless fuel or an allowance paid in lieu of such provision if the employee is a colliery worker\textsuperscript{2060},

(xxviii) earnings where an employer makes contributions under approved personal pension arrangements made by an employee\textsuperscript{2061},

(xxix) the provision of services to a person in connection with the cessation of the person’s employment, or the payment or reimbursement of fees

\textsuperscript{2051} Section 265, ITEPA 2003
\textsuperscript{2052} Section 266, ITEPA 2003
\textsuperscript{2053} Section 267, ITEPA 2003
\textsuperscript{2054} Section 268, ITEPA 2003
\textsuperscript{2055} Section 269, ITEPA 2003
\textsuperscript{2056} Section 270, ITEPA 2003
\textsuperscript{2057} Section 271, ITEPA 2003
\textsuperscript{2058} Section 290, ITEPA 2003
\textsuperscript{2059} Section 305, ITEPA 2003
\textsuperscript{2060} Section 306, ITEPA 2003
\textsuperscript{2061} Section 308, ITEPA 2003
for such provision, or travelling expenses incurred in connection with such provision 2062,

(xxx) repairs and alterations to living accommodation provided by reason of a person’s employment 2063,

(xxxi) any payment to, for or on behalf of the employee, or any reimbursement of any payment by the employee, in respect of council tax or rates, or water or sewerage charges, in respect of the accommodation 2064,

(xxxii) the provision for an employee of accommodation, supplies or services used by the employee in performing duties of the employment 2065,

(xxxiii) free or subsidises meals in a staff canteen, if available to all employees 2066,

(xxxiv) the provision for an employee of care for a child 2067,

(xxxv) the provision for an employee of a mobile telephone without any transfer of property in it 2068,

(xxxvi) the provision of computer equipment to an employee, so long as the benefit arising would not exceed 500 pounds p.a. 2069,

(xxxvii) awards of up to 5,000 pounds made under a staff suggestion scheme 2070,

(xxxviii) non-cash long-service awards 2071,

(xxxix) non-cash gifts received by virtue of the employment from someone other than the employer 2072,

(xl) the provision for an employee of medical treatment outside the UK, or the provision for an employee of insurance against the cost of providing such treatment 2073,
(xli) the payment or reimbursement of expenses which are incidental to, and incurred wholly and exclusively as a result of, an employment-related asset transfer, and are of a kind not normally met by the transferor\(^\text{2074}\),

(xlii) the value of the beneficial interest in the shares and an award of share to the employee under approved share incentive plans (SIPs)\(^\text{2075}\),

(xliii) cash dividends retained for reinvestment in SIPs\(^\text{2076}\),

(xliv) amounts applied by SIP trustees acquiring dividend shares or retained for reinvestment\(^\text{2077}\),

(xlv) the receipt of the share option under approved SAYE (Save As You Earn) option schemes\(^\text{2078}\),

(xlvi) the receipt of the share option under approved CSOP (Company Share Option Plan) schemes\(^\text{2079}\), and

(xlvii) the receipt of a qualifying option under EMI (Enterprise Management Incentive) scheme and code\(^\text{2080}\).

Exemptions under (i) include (i) wounds and disability pensions\(^\text{2081}\), (ii) pensions and allowances in respect of death due to military or war service\(^\text{2082}\), (iii) a pension or annuity to the holder of an award for bravery\(^\text{2083}\), and (iv) Malawi, Trinidad and Tobago and Zambia government pensions\(^\text{2084}\).

Exemptions under (j) include (i) foreign service allowances for Crown servants\(^\text{2085}\), (ii) grants and payments to persons ceasing to be MPs on a dissolution of Parliament, to persons ceasing to hold certain Ministerial and other offices, and to persons ceasing to be Representatives of the European Parliament\(^\text{2086}\), (iii) overnight

\(^{2073}\) Section 325, ITEPA 2003
\(^{2074}\) Section 326, ITEPA 2003
\(^{2075}\) Sections 490, 491, ITEPA 2003
\(^{2076}\) Section 496, ITEPA 2003
\(^{2077}\) Section 770, ITTOIA 2005
\(^{2078}\) Section 518, ITEPA 2003
\(^{2079}\) Section 523, ITEPA 2003
\(^{2080}\) Section 641, ITEPA 2003
\(^{2081}\) Section 642, ITEPA 2003
\(^{2082}\) Section 639, ITEPA 2003
\(^{2083}\) Section 638, ITEPA 2003
\(^{2084}\) Section 643, ITEPA 2003
\(^{2085}\) Section 319, TA1988
\(^{2086}\) Section 291, ITEPA 2003
expenses allowances of MPs\(^{2087}\), (iv) overnight expenses of other elected representatives\(^{2088}\), (v) EU travel expenses of MPs and other representatives\(^{2089}\), (vi) the provision of transport or subsistence for Government ministers etc.\(^{2090}\), (vii) the provision of travel facilities for a member of the armed forces going on or returning from leave\(^{2091}\), (viii) armed forces’ food, drink and mess allowances\(^{2092}\), and (ix) Crown employees’ foreign service allowances.\(^{2093}\)

**Exemptions under (k)** include (i) a pension or annuity payable for victims of National-Socialist persecution\(^{2094}\), (ii) maintenance payments following divorce or separation\(^{2095}\), (iii) pensions payable where employment ceased due to disablement\(^{2096}\), (iv) a part of social security pension which is attributable to an increase in respect of children\(^{2097}\), (v) the provision of coal or smokeless fuel to a former colliery worker, or to the widow or widower of a former colliery worker\(^{2098}\), (vi) any payment or reward made to a person who has adopted or intends to adopt a child\(^{2099}\), (vii) payments made to employees for death in service\(^{2100}\), (viii) provision made by an employee’s employer for a retirement or death benefit\(^{2101}\), (ix) a disabled person’s vehicle maintenance grant\(^{2102}\), and (x) wedding and certain presents from an employer which are not in return for an employee’s service.\(^{2103}\)

**Exemptions under (l)** include (i) periodical payments of personal injury damages\(^{2104}\), (ii) payments from trusts for injured persons\(^{2105}\), (iii) interest on damages for personal injuries (including any disease or impairment of a person’s

\(^{2087}\) Section 292, ITEPA 2003  
\(^{2088}\) Section 293, ITEPA 2003  
\(^{2089}\) Section 294, ITEPA 2003  
\(^{2090}\) Section 295, ITEPA 2003  
\(^{2091}\) Section 296 (1), ITEPA 2003  
\(^{2092}\) Section 297, ITEPA 2003  
\(^{2093}\) Section 299, ITEPA 2003  
\(^{2094}\) Section 642, ITEPA 2003  
\(^{2095}\) Homer and Burrows, op.cit.\((\text{note} 1662)\), p.7  
\(^{2096}\) Section 644, ITEPA 2003  
\(^{2097}\) Section 645, ITEPA 2003  
\(^{2098}\) Section 646, ITEPA 2003  
\(^{2099}\) Sections 744, 745, 746, ITTOIA 2005  
\(^{2100}\) Lymer, op.cit.\((\text{note} 120)\), p.4/5  
\(^{2101}\) Section 307, ITEPA 2003  
\(^{2102}\) Section 780, ITTOIA 2005  
\(^{2103}\) Sinclair, op.cit.\((\text{note} 1627)\), p.10  
\(^{2104}\) Section 731 (1), ITTOIA 2005  
\(^{2105}\) Section 734 (1), ITTOIA 2005
physical or mental condition)\textsuperscript{2106}, (iv) benefits payable under sickness insurance policy, and (v) damages and compensation for personal injury.\textsuperscript{2107}

**Exemptions under (m)** include (i) a pension paid from the Central African Pension Fund\textsuperscript{2108}, (ii) Commonwealth government pensions\textsuperscript{2109}, (iii) a pension paid under the Oversea Superannuation Scheme\textsuperscript{2110}, (iv) a pension paid under the Overseas Pensions Act 1973\textsuperscript{2111}, (v) a pension paid under the authority of the Overseas Service Act 1958\textsuperscript{2112}, (vi) a pension paid out of the Overseas Service Pensions Fund\textsuperscript{2113}, (vii) a pension paid under the authority of the Pensions (India, Pakistan and Burma) Act 1955\textsuperscript{2114}, (viii) interest on foreign currency securities etc. owned by non-UK residents\textsuperscript{2115}, (ix) relevant foreign income of a consular officer or employee in the UK for a foreign state\textsuperscript{2116}, (x) income arising from the office of a consul in the UK in the service of a foreign state\textsuperscript{2117}, (xi) income arising from employment as an official agent in the UK for a foreign state\textsuperscript{2118}, (xii) income arising from employment in the UK as a consular employee for a foreign state\textsuperscript{2119}, (xiii) earnings if they are paid by the government of a designated country to a member of a visiting force of that country or of a civilian component of such a force\textsuperscript{2120}, (xiv) earnings if they are paid by a designated allied headquarters to an employee of a category for the time being agreed between Her Majesty’s government in the UK and the other members of the North Atlantic Council\textsuperscript{2121}, and (xv) daily subsistence allowances paid by the European Commission to persons whose services are made available to the Commission by their employers under the detached national experts scheme.\textsuperscript{2122}

\textsuperscript{2106} Section 751, ITTOIA 2005
\textsuperscript{2107} Homer and Burrows, op.cit.(note1665), p.7
\textsuperscript{2108} Section 648 (1), ITEPA 2003
\textsuperscript{2109} Section 649 (1), ITEPA 2003
\textsuperscript{2110} Section 650 (1), ITEPA 2003
\textsuperscript{2111} Section 651 (1), ITEPA 2003
\textsuperscript{2112} Section 652 (1), ITEPA 2003
\textsuperscript{2113} Section 653 (1), ITEPA 2003
\textsuperscript{2114} Section 654 (1), ITEPA 2003
\textsuperscript{2115} Section 755, ITTOIA 2005
\textsuperscript{2116} Section 771, ITTOIA 2005
\textsuperscript{2117} Section 300, ITEPA 2003
\textsuperscript{2118} Section 301, ITEPA 2003
\textsuperscript{2119} Section 295, ITEPA 2003
\textsuperscript{2120} Section 303, ITEPA 2003
\textsuperscript{2121} Section 304, ITEPA 2003
\textsuperscript{2122} Section 304, ITEPA 2003

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Exemptions under (n) include (i) an annual payment made under an immediate needs annuity\(^{2123}\), (ii) an annual payment if it is made by an individual, and arises in the UK\(^{2124}\), and (iii) an annual payment if it is a maintenance payment, it arises outside the UK, and had it arisen in the UK it would be exempt from income tax.\(^{2125}\)

Exemptions under (o) include (i) certain interest and royalty payments\(^{2126}\), (ii) income arising from the commercial occupation of woodlands in the UK\(^{2127}\), (iii) housing grants\(^{2128}\), (iv) VAT repayment supplements\(^{2129}\), (v) anything received by way of incentives to use electronic communications\(^{2130}\), (vi) gains on commodity and financial futures\(^{2131}\), and (vii) interest if it is paid to a person to whom a student loan has been made.\(^{2132}\)

\(^{2123}\) Section 725 (1), ITTOIA 2005
\(^{2124}\) Section 727(1), ITTOIA 2005
\(^{2125}\) Section 730(1), ITTOIA 2005
\(^{2126}\) Section 758, ITTOIA 2005
\(^{2127}\) Section 768, ITTOIA 2005
\(^{2128}\) Section 769, ITTOIA 2005
\(^{2129}\) Section 777, ITTOIA 2005
\(^{2130}\) Section 779, ITTOIA 2005
\(^{2131}\) Section 779, ITTOIA 2005
\(^{2132}\) Section 753 (1), ITTOIA 2005
Appendix XI to Chapter Three

Although the tax liability of poorer taxpayers is discharged or reduced, that of richer taxpayers is also discharged or reduced as a result of tax expenditures. This has the following effects.

First, the rich are discharged from a greater tax liability than the poor. For example, although a person with a tax-free lottery winning of £1,000,000 does not pay tax in the same way as another who wins £1,000, the former is discharged from a greater tax liability than the latter.

Secondly, the rich may pay the same amount of income in tax as the poor. For example, a person who earns an employment income of 500,000 baht and can claim tax-free life insurance premiums of 40,000 baht together with an allowance for life insurance premiums of 10,000 baht pays the same tax as another who earns an employment income of 455,000 baht but can claim tax-free life insurance premiums of 5,000 baht.

Thirdly, the rich may pay less income in tax than the poor. For example, a person who earns a copyright income of 1,000,000 baht and can claim a tax-free income for buying units in the Retirement Mutual Fund (RMF) of 150,000 baht pays less tax than another who earns a copyright income of 900,000 baht buying units in the RMF of 5,000 baht.
Appendix XII to Chapter Three

Example 3.8

In 2004-05, Jim wins a tax-free lottery prize of £40,500, while Jack wins £6,575. If lottery winnings were taxable, MTRs and ATRs on both persons' income (after the subtraction of a personal allowance of £4,745) would be as shown in Table below.

<table>
<thead>
<tr>
<th>Taxpayers</th>
<th>Taxable income (£)</th>
<th>MTRs</th>
<th>ATRs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jim</td>
<td>35,775</td>
<td>(2,020x10%)+(29,380x22%)+(4,375x40%)</td>
<td>20.77%</td>
</tr>
<tr>
<td>Jack</td>
<td>1,830</td>
<td>(1,830x10%)</td>
<td>2.78%</td>
</tr>
</tbody>
</table>

Since lottery winnings are non-taxable, effective MTRs and ATRs on both persons' income are 0%. The tax consequence is that Jim (the rich) receives a greater proportionate reduction in tax liability than Jack (the poor), (Jim's tax reduction is 21.30%, Jack's 2.78%).

Example 3.9

In 2005, Joy receives patent income of 230,000 baht, while Jib receives patent income of 1,030,000 baht. Deductible expenses are not available to patent income under Thai law. After the subtraction of a personal allowance of 30,000 baht, a net/taxable income, MTRs and ATRs both persons are shown in Table below.

<table>
<thead>
<tr>
<th>Taxpayers</th>
<th>Net income (baht)</th>
<th>MTRs</th>
<th>ATRs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joy</td>
<td>200,000</td>
<td>(100,000x0%)+ (100,000x10%)</td>
<td>4.34%</td>
</tr>
<tr>
<td>Jib</td>
<td>1,000,000</td>
<td>(100,000x0%)+ (400,000x10%)+(500,000x20%)</td>
<td>13.59%</td>
</tr>
</tbody>
</table>

If in this tax year, Joy and Jib both paid life insurance premiums and house mortgage interest, a net/taxable income, MTRs and ATRs of both persons (after the subtraction of a personal allowance and itemized deductions) would be as shown in Table below. (Supposing that Joy paid a life insurance premium of 1,000 baht and a mortgage interest of 1,000 baht, while Jib paid a life insurance premium of 10,000 baht and a mortgage interest of 10,000 baht).
<table>
<thead>
<tr>
<th>Taxpayers</th>
<th>Net income (baht)</th>
<th>Marginal tax rates</th>
<th>Average tax rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joy</td>
<td>198,000</td>
<td>(100,000x0%)+(98,000x10%)</td>
<td>4.26%</td>
</tr>
<tr>
<td>Jib</td>
<td>980,000</td>
<td>(100,000x0%)+(400,000x10%)+(480,000x20%)</td>
<td>13.20%</td>
</tr>
</tbody>
</table>

The tax consequence is that Jib (the rich) would receive a greater proportionate reduction in tax liability than Joy (the poor) if they claimed itemized deductions. (Jib’s tax reduction would be 0.39%, Joy’s 0.08%). Itemized deductions could thus undercut the degree of tax progressivity.
Appendix XIII to Chapter Three

Table below will show the estimated costs of principal tax expenditures and structural reliefs for income tax for 2003-04 and 2004-05.

<table>
<thead>
<tr>
<th>Types of tax relief</th>
<th>Tax year 2003-04 (£million)</th>
<th>Tax year 2004-05 (£million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structural reliefs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal allowance</td>
<td>36,500</td>
<td>38,000</td>
</tr>
<tr>
<td>Tax Expenditures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relief for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approved pension schemes</td>
<td>11,400</td>
<td>12,900</td>
</tr>
<tr>
<td>Share Incentive Plan</td>
<td>160</td>
<td>180</td>
</tr>
<tr>
<td>Approved savings-related share option schemes</td>
<td>140</td>
<td>160</td>
</tr>
<tr>
<td>Enterprise Management Incentives</td>
<td>50</td>
<td>60</td>
</tr>
<tr>
<td>Personal Equity Plans</td>
<td>625</td>
<td>425</td>
</tr>
<tr>
<td>Individual Savings Accounts</td>
<td>1,000</td>
<td>1,200</td>
</tr>
<tr>
<td>Exemption of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First £30,000 of payments on termination of employment</td>
<td>800</td>
<td>800</td>
</tr>
<tr>
<td>Interest on National Savings Certificates including index-linked certificates</td>
<td>120</td>
<td>120</td>
</tr>
<tr>
<td>Tax Exempt Special Savings Account interest</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>Premium Bond prizes</td>
<td>100</td>
<td>150</td>
</tr>
<tr>
<td>Foreign service allowance paid to Crown servants abroad</td>
<td>90</td>
<td>100</td>
</tr>
<tr>
<td>Reliefs with Tax Expenditure and Structural Components</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age-related allowances</td>
<td>2,000</td>
<td>2,100</td>
</tr>
<tr>
<td>Exemption of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child Benefit</td>
<td>1,030</td>
<td>1,070</td>
</tr>
<tr>
<td>Long-term incapacity benefit</td>
<td>250</td>
<td>260</td>
</tr>
<tr>
<td>Industrial disablement benefits</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Attendance allowance</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>Disability living allowance</td>
<td>300</td>
<td>310</td>
</tr>
<tr>
<td>War disablement benefits</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>War widow's pension</td>
<td>70</td>
<td>70</td>
</tr>
</tbody>
</table>

Source: HM Revenue & Customs, [http://www.hmrc.gov.uk/stats/tax_expenditures/table1.5.pdf](http://www.hmrc.gov.uk/stats/tax_expenditures/table1.5.pdf), as of 04/07/05
Appendix I to Chapter Four

As shown in Example 1 and Table 1 below, joint taxation achieves equity because it imposes equal taxes on two-earner married couples with equal incomes.

Example 4.1

In 2005, two married couples (Somchai and Sudarat, Jirasak and Sirirat) have equal taxable incomes. Somchai’s taxable income is 4,000,000 baht, and Sudarat’s is 4,000,000 baht. Their aggregated taxable income is 8,000,000 baht, which is taxed at 2,520,000 baht. Meanwhile, Jirasak’s taxable income is 1,000,000 baht, and Sirirat’s is 7,000,000 baht. Their aggregated taxable income is 8,000,000 baht, which is also taxed at 2,520,000 baht. Accordingly, these couples with equal incomes pay equal taxes under joint taxation.

<table>
<thead>
<tr>
<th>Status (married)</th>
<th>Individual income (baht)</th>
<th>Joint income (baht)</th>
<th>Joint tax (baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Somchai+Sudarat</td>
<td>4,000,000+4,000,000</td>
<td>8,000,000</td>
<td>2,520,000</td>
</tr>
<tr>
<td>Jirasak+Sirirat</td>
<td>1,000,000+7,000,000</td>
<td>8,000,000</td>
<td>2,520,000</td>
</tr>
</tbody>
</table>

As shown in Example 2 and Table 2 below, individual taxation produces different treatment of two-earner married couples, depending on the distribution of income between a couple. That is, a married couple where spouses earn income equally pays less tax than a married couple in which the spouses earn income unequally.

Example 4.2

In 2004-05, two married couples (John and Susan, Tony and Amma) have equal taxable incomes. John’s taxable income is £35,885, and Susan’s is £35,885. John is taxed at £8,459.60. Susan also pays £8,459.60 in tax. The total tax liability of this couple is 8,459.60+8,459.60 = £16,919.20. Meanwhile, Tony’s net/taxable income is £70,000, and Amma’s is £1,770. Tony’s tax liability is £22,105.60, and Amma’s is £177. The total tax liability of this couple is 22,105.60+177 = 22,282.60£. Despite having equal incomes (£71,770), the John-Susans pay less tax than the Tony-Ammas under individual taxation.

\[2,520,000 = (100,000 \times 0\%) + (400,000 \times 10\%) + (500,000 \times 20\%) + (3,000,000 \times 30\%) + (4,000,000 \times 37\%) = 2,520,000\]
<table>
<thead>
<tr>
<th>Status (married)</th>
<th>Individual income (£)</th>
<th>Individual tax (£)</th>
<th>Total tax of the couple (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>John + Susan</td>
<td>35,885</td>
<td>8,459.60</td>
<td>16,919.20</td>
</tr>
<tr>
<td>Tony + Amma</td>
<td>70,000</td>
<td>22,105.60</td>
<td>22,282.60</td>
</tr>
</tbody>
</table>

\[2135 \text{ as note 1673}
\[2136 (2,020 \times 10\%)+(29,380 \times 22\%)+(4,485 \times 40\%)=8,459.60
\[2137 \text{ as note 1675}
\[2138 (2,020 \times 10\%)+(29,380 \times 22\%)+(38,600 \times 40\%)=22,105.60
\[2139 (1770 \times 10\%)=177
Appendix II to Chapter Four

Where one-earner and two-earner couples with equal incomes are viewed to have the same taxable capacity, joint taxation can impose equal taxes on both couples, as shown in Example 3 and Table 3 below. Thus, it does not violate equity.

**Example 4.3**

In 2005, Somsak’s taxable income is 4,000,000 baht, and Somsri, his wife, has no income. The tax liability of this couple is 1,040,000 baht. Meanwhile, Yod’s taxable income is 2,000,000 baht, and the taxable income of his wife (Srisamorn) is also 2,000,000 baht. The aggregation of income of this couple is 4,000,000 baht, which is taxed at 1,040,000 baht. Accordingly, both couples with equal incomes pay equal taxes under joint taxation.

<table>
<thead>
<tr>
<th>Status (married)</th>
<th>Individual income (baht)</th>
<th>Joint income (baht)</th>
<th>Joint tax (baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Somsak+ Somsri</td>
<td>4,000,000+0</td>
<td>4,000,000</td>
<td>1,040,000²¹⁴⁰</td>
</tr>
<tr>
<td>Yod+ Srisamorn</td>
<td>2,000,000+2,000,000</td>
<td>4,000,000</td>
<td>1,040,000²¹⁴¹</td>
</tr>
</tbody>
</table>

Conversely, individual taxation does not impose equal taxes on one-earner and two-earner couples with equal incomes, as shown in Example 4 and Table 4 below. Thus, individual taxation violates equity.

**Example 4.4**

In 2004-05, Tom’s taxable income is £35,885, and Wendy, his wife, earns nothing. Tom is taxed at £8,459.60. Wendy has no tax liability. The total tax liability of this couple is 8,459.60+0 = £8,459.60. Meanwhile, David’s taxable income is £17,942.50, and the taxable income of his wife (Jenny) is also £17,942.50. David is taxed at £3,704.95. Jenny is also taxed at £3,704.95. The total tax liability of this couple is 3,704.95+3,704.95 = £7,409.90. Despite having equal incomes, the David-Jennys pay less tax than the Tom-Wendys under individual taxation.

²¹⁴⁰ (100,000x0%)+(400,000x10%)+(500,000x20%)+(3,000,000x30%)=1,040,000
<table>
<thead>
<tr>
<th>Status(married)</th>
<th>Individual income (£)</th>
<th>Individual tax (£)</th>
<th>Total tax of the couple (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tom + Wendy</td>
<td>35,885</td>
<td>8,459.60&lt;sup&gt;2142&lt;/sup&gt;</td>
<td>8,459.60</td>
</tr>
<tr>
<td>David + Jenny</td>
<td>35,885.00</td>
<td>7,409.90&lt;sup&gt;2144&lt;/sup&gt;</td>
<td></td>
</tr>
</tbody>
</table>

<sup>2141</sup> as note 2140
<sup>2142</sup> \((2,020\times10\%)+(29,380\times22\%)+(4,485\times40\%)=8,459.60\)
<sup>2143</sup> \((2,020\times10\%)+(15,922.50\times22\%)=3,704.95\)
<sup>2144</sup> as note 2143
Appendix III to Chapter Four

Example 4.5

In 2005, Sakchai’s taxable income is 4,000,000 baht, and Srirat, his wife, earns nothing. The tax liability of this couple is 1,040,000 baht. Meanwhile, Nares has no outside income, but Jairak, his wife, has a taxable income of 4,000,000 baht. The tax liability of this couple is 1,040,000 baht.

<table>
<thead>
<tr>
<th>Status (married)</th>
<th>Individual income (baht)</th>
<th>Joint income (baht)</th>
<th>Joint tax (baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sakchai + Srirat</td>
<td>4,000,000 + 0</td>
<td>4,000,000</td>
<td>1,040,000</td>
</tr>
<tr>
<td>Nares + Jairak</td>
<td>0 + 4,000,000</td>
<td>4,000,000</td>
<td>1,040,000</td>
</tr>
</tbody>
</table>

Example 4.6

In 2004-05, Tim’s taxable income is £35,885, while Amanda, his wife, earns nothing. Tim pays £8,459.60 in tax. Amanda pays no tax. The tax liability of this couple is £8,459.60. Meanwhile, Johny has no income, but Ammy, his wife, has a taxable income of £35,885. Johny has no tax liability. But Ammy pays £8,459.60 in tax. The tax liability of the Johny-Ammys is equal to that of the Tim-Amandas.

<table>
<thead>
<tr>
<th>Status (married)</th>
<th>Individual income (£)</th>
<th>Individual tax (£)</th>
<th>Total tax of the couple (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tim</td>
<td>35,885</td>
<td>8,459.60</td>
<td>8,459.60</td>
</tr>
<tr>
<td>+ Amanda</td>
<td>0</td>
<td>0</td>
<td>8,459.60</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>35,885</td>
</tr>
<tr>
<td>Johny</td>
<td>0</td>
<td>0</td>
<td>8,459.60</td>
</tr>
<tr>
<td>+ Ammy</td>
<td>35,885</td>
<td>8,459.60</td>
<td>8,459.60</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>35,885</td>
</tr>
</tbody>
</table>

2145 \[(100,000 \times 0\%) + (400,000 \times 10\%) + (500,000 \times 20\%) + (3,000,000 \times 30\%) = 1,040,000\]

2146 as note 2145

2147 \[(2,020 \times 10\%) + (29,380 \times 22\%) + (4,485 \times 40\%) = 8,459.60\]

2148 as note 2147
Example 4.7

In 2005, Chaichan lives singly and has a taxable income of 4,000,000 baht. His tax liability is 1,040,000 baht. Meanwhile, Kannika lives singly and has a taxable income of 4,000,000 baht. Her tax liability is 1,040,000 baht. Now assume that Chaichan marries Kannika, and their taxable incomes remain unchanged after marriage. Under joint taxation, the combined income of Chaichan and Kannika is 4,000,000+4,000,000 = 8,000,000 baht, which is taxed at 2,520,000 baht. The Chaichan-Kannikas pay more tax than they would as two single people under joint taxation.

<table>
<thead>
<tr>
<th>Status</th>
<th>Individual income (baht)</th>
<th>Individual tax (baht)</th>
<th>Joint income (baht)</th>
<th>Joint tax (baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chaichan (single)</td>
<td>4,000,000</td>
<td>1,040,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kannika (single)</td>
<td>4,000,000</td>
<td>1,040,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chaichan + Kannika</td>
<td>4,000,000+4,000,000</td>
<td>-</td>
<td>8,000,000</td>
<td>2,520,000</td>
</tr>
</tbody>
</table>

Example 4.8

In 2004-05, Richard lives singly and has a taxable income of £35,885. He pays £8,459.60 in tax. Meanwhile, Ann lives singly and has a taxable income of £35,885, and she also pays £8,459.60 in tax. Now assume that Richard marries Ann, and their taxable incomes remain unchanged after marriage. Under individual taxation, each spouse is taxed separately on his/her income. Consequently, Richard continues to pay £8,459.60 in tax. Ann also continues to pay £8,459.60 in tax. The Richard-Anns pay the same taxes as they would as two people living separately, under individual taxation.

---

2149 \[(100,000 \times 0\%) + (400,000 \times 10\%) + (500,000 \times 20\%) + (3,000,000 \times 30\%) = 1,040,000\]

2150 as note 2149
<table>
<thead>
<tr>
<th>Status</th>
<th>Individual income (£)</th>
<th>Individual tax (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richard (single)</td>
<td>35,885</td>
<td>8,459.60&lt;sup&gt;2152&lt;/sup&gt;</td>
</tr>
<tr>
<td>Ann (single)</td>
<td>35,885</td>
<td>8,459.60&lt;sup&gt;2153&lt;/sup&gt;</td>
</tr>
<tr>
<td>Richard</td>
<td>35,885</td>
<td>8,459.60&lt;sup&gt;2154&lt;/sup&gt;</td>
</tr>
<tr>
<td>+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ann</td>
<td>35,885</td>
<td>8,459.60&lt;sup&gt;2155&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

<sup>2151</sup>(100,000x0%)+(400,000x10%)+(500,000x20%)+(3,000,000x30%)+(4,000,000x37%)=2,520,000  
<sup>2152</sup>(2,020x10%)+(29,380x22%)+(4,485x40%)=8,459.60  
<sup>2153</sup> as note 2152  
<sup>2154</sup> as note 2152  
<sup>2155</sup> as note 2152
Appendix V to Chapter Four

Example 4.9

In 2005, Chai lives singly and has a taxable income of 4,000,000 baht. He pays 1,040,000 baht in tax. Kannika also lives singly and has a taxable income of 4,000,000 baht. She also pays 1,040,000 baht in tax. Meanwhile, Sak has a taxable income of 8,000,000 baht, being equal to the combined income of Chai and Kannika. Srirat, his wife, earns nothing. The tax liability of this couple is 2,520,000 baht, which is higher than Chai and Kannika, who live separately, under joint taxation.

<table>
<thead>
<tr>
<th>Status</th>
<th>Individual income (baht)</th>
<th>Individual tax (baht)</th>
<th>Joint income (baht)</th>
<th>Joint tax (baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chai (single)</td>
<td>4,000,000</td>
<td>1,040,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kannika (single)</td>
<td>4,000,000</td>
<td>1,040,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sak</td>
<td>8,000,000</td>
<td></td>
<td></td>
<td>2,520,000</td>
</tr>
<tr>
<td>+ Srirat</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Example 4.10

In 2004-05, Richard lives singly and has a taxable income of £35,885. He pays £8,459.60 in tax. Ann also lives singly and has a taxable income of £35,885, and she also pays £8,459.60 in tax. Meanwhile, Tom has a taxable income of £71,770 (which is equal to the combined income of Richard and Ann.) Tom is taxed at £22,813.60. Wendy, his wife, earns nothing and pays no tax. The Tom-Wendys pay more tax than Richard and Ann, who live separately, under individual taxation.

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2156 \((100,000 \times 0\%)+(400,000 \times 10\%)+(500,000 \times 20\%)+(3,000,000 \times 30\%) = 1,040,000\)

2157 as note 2156
### Example 4.11

In 2005, Chai (a single man) has a taxable income of 4,000,000 baht. He pays 1,040,000 baht in tax. Meanwhile, Kannika lives with her parents. She is dependent on her parents and earns nothing. She pays no tax. Now assume that Chai marries Kannika, and their taxable incomes remain unchanged after marriage. Their combined income of 4,000,000 + 0 = 4,000,000 baht is taxed at 1,040,000 baht. The tax burden of the Chai-Kannikas does not increase after getting married.

<table>
<thead>
<tr>
<th>Status</th>
<th>Individual income (baht)</th>
<th>Individual tax (baht)</th>
<th>Joint income (baht)</th>
<th>Joint tax (baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chai (bachelor, living singly)</td>
<td>4,000,000</td>
<td>1,040,0002162</td>
<td>−</td>
<td>−</td>
</tr>
<tr>
<td>Kannika (unmarried, living with parents)</td>
<td>0</td>
<td>0</td>
<td>1,040,000</td>
<td>1,040,0002163</td>
</tr>
<tr>
<td>Chai</td>
<td>4,000,000</td>
<td></td>
<td>4,000,000</td>
<td>1,040,0002163</td>
</tr>
<tr>
<td>+ Kannika</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

2158 (100,000x0%)+(400,000x10%)+(500,000x20%)+(3,000,000x30%)+(4,000,000x37%) = 2,520,000
2159 (2,020x10%)+(29,380x22%)+(4,485x40%) = 8,459.60
2160 as note 2159
2161 (2,020x10%)+(29,380x22%)+(40,370x40%) = 22,813.60
2162 (100,000x0%)+(400,000x10%)+(500,000x20%)+(3,000,000x30%) = 1,040,000
2163 as note 2162
Appendix VI to Chapter Four

Example 4.12

In 2005, Somchai and Sudarat cohabit. Somchai’s taxable income is 4,000,000 baht. Sudarat’s is 4,000,000 baht. The incomes of two unmarried people are not aggregated under joint taxation. Somchai’s tax liability is 1,040,000 baht. Sudarat’s is 1,040,000 baht. The total tax liability of this unmarried couple is 1,040,000+1,040,000 = 2,080,000 baht.

Now assume that Somchai marries Sudarat. Somchai and Sudarat keep the same taxable incomes after marriage. Somchai’s income and Sudarat’s income are combined under joint taxation. Their aggregated income of 4,000,000+4,000,000 = 8,000,000 baht is taxed at 2,520,000 baht. Accordingly, a married couple pays more tax than an unmarried couple under joint taxation.

<table>
<thead>
<tr>
<th>Status</th>
<th>Individual income (baht)</th>
<th>Individual tax (baht)</th>
<th>Joint income (baht)</th>
<th>Joint tax (baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Somchai</td>
<td>4,000,000</td>
<td>1,040,000(^{2164})</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>+ (cohabiting)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sudarat</td>
<td>4,000,000</td>
<td>1,040,000(^{2165})</td>
<td>2,080,000</td>
<td></td>
</tr>
<tr>
<td>Somchai</td>
<td>4,000,000</td>
<td>+</td>
<td>8,000,000</td>
<td>2,520,000(^{2166})</td>
</tr>
<tr>
<td>+ (married)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sudarat</td>
<td>4,000,000</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Example 4.13

In 2004-05, John and Susan cohabit. John’s taxable income is £35,885. Susan’s is £35,885. John’s tax liability is £8,459.60. Susan’s is also £8,459.60. The total tax liability of this unmarried couple is 8,459.60+8,459.60 = £16,919.20. Now assume that John marries Susan. John and Susan keep the same taxable incomes after marriage. John and Susan are still taxed separately under individual taxation. John’s tax liability is £8,459.60. Susan’s is £8,459.60. The total tax of this married couple is 8,459.60+8,459.60 = £16,919.20, which is the same amount they would pay as a cohabiting couple.

\(^{2164}\) (100,000x0%)+(400,000x10%)+(500,000x20%)+(3,000,000x30%)=1,040,000

\(^{2165}\) as note 2164

\(^{2166}\) (100,000x0%)+(400,000x10%)+(500,000x20%)+(3,000,000x30%)+(4,000,000x37%) =2,520,000
<table>
<thead>
<tr>
<th>Status</th>
<th>Individual income (£)</th>
<th>Individual tax (£)</th>
<th>Total tax of the couple (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>John</td>
<td>35,885</td>
<td>8,459.60&lt;sup&gt;2167&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>+ (cohabiting)</td>
<td></td>
<td></td>
<td>16,919.20</td>
</tr>
<tr>
<td>Susan</td>
<td>35,885</td>
<td>8,459.60&lt;sup&gt;2168&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>John</td>
<td>35,885</td>
<td>8,459.60&lt;sup&gt;2169&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>+ (married)</td>
<td></td>
<td></td>
<td>16,919.20</td>
</tr>
<tr>
<td>Susan</td>
<td>35,885</td>
<td>8,459.60&lt;sup&gt;2170&lt;/sup&gt;</td>
<td></td>
</tr>
</tbody>
</table>

<sup>2167</sup> \((2,020 \times 10\%) + (29,380 \times 22\%) + (4,485 \times 40\%) = 8,459.60\)

<sup>2168</sup> as note 2167

<sup>2169</sup> as note 2167

<sup>2170</sup> as note 2167
Appendix VII to Chapter Four

Example 4.14

In 2005, Chai lives singly and his taxable income is 4,000,000 baht. His tax liability is 1,040,000 baht. Kannika also lives singly and her taxable income is 4,000,000 baht. Her tax liability is 1,040,000 baht. Now assume that Chai and Kannika cohabit. Their taxable incomes remain unchanged after cohabitation. Their incomes are not aggregated under joint taxation. Chai is still taxed at 1,040,000 baht. Kannika still pays 1,040,000 baht in tax. Accordingly, an unmarried couple pays the same tax as two persons living separately under joint taxation.

<table>
<thead>
<tr>
<th>Status</th>
<th>Individual income (baht)</th>
<th>Individual tax (baht)</th>
<th>Joint income (baht)</th>
<th>Joint tax (baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chai (single)</td>
<td>4,000,000</td>
<td>1,040,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Kannika (single)</td>
<td>4,000,000</td>
<td>1,040,000</td>
<td>2,080,000</td>
<td></td>
</tr>
<tr>
<td>Chai</td>
<td>4,000,000</td>
<td>1,040,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>+ (cohabiting)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kannika</td>
<td>4,000,000</td>
<td>1,040,000</td>
<td>2,080,000</td>
<td></td>
</tr>
</tbody>
</table>

Example 4.15

In 2004-05, John lives singly and has a taxable income of £35,885. He pays £8,459.60 in tax. Susan also lives singly and has a taxable income of £35,885. Susan also pays £8,459.60 in tax. Now assume that John and Susan cohabit. John and Susan keep the same taxable income after cohabitation. John and Susan are still taxed separately under individual taxation. John’s tax liability is still £8,459.60. Susan’s is still £8,459.60. Accordingly, an unmarried couple pays the same tax as two persons living separately under individual taxation.

\[(100,000\times0\%)+(400,000\times10\%)+(500,000\times20\%)+(3,000,000\times30\%)=1,040,000\]

\[\text{as note 2171}\]

\[\text{as note 2171}\]

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<table>
<thead>
<tr>
<th>Status</th>
<th>Individual income (£)</th>
<th>Individual tax (£)</th>
<th>Total tax (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>John (single)</td>
<td>35,885</td>
<td>8,459.60$^{2175}$</td>
<td>16,919.20</td>
</tr>
<tr>
<td>Susan (single)</td>
<td>35,885</td>
<td>8,459.60$^{2176}$</td>
<td></td>
</tr>
<tr>
<td>John + (cohabiting)</td>
<td>35,885</td>
<td>8,459.60$^{2177}$</td>
<td>16,919.20</td>
</tr>
<tr>
<td>Susan</td>
<td>35,885</td>
<td>8,459.60$^{2178}$</td>
<td></td>
</tr>
</tbody>
</table>

$^{2174}$ as note 2171  
$^{2175} (2,020 \times 10\%) + (29,380 \times 22\%) + (4,485 \times 40\%) = 8,459.60$  
$^{2176}$ as note 2175  
$^{2177}$ as note 2175  
$^{2178}$ as note 2175
Appendix VIII to Chapter Four

Example 4.16

In 2005, Chai lives singly and his taxable income is 4,000,000 baht. He pays 1,040,000 baht in tax. Now assume that Chai marries Kannika. Chai keeps the same taxable income after marriage. Kannika earns nothing. Their combined income of 4,000,000+0 = 4,000,000 baht is taxed at 1,040,000 baht. Under joint taxation, the tax burden of this married couple is not reduced after marriage.2179

<table>
<thead>
<tr>
<th>Status</th>
<th>Individual income (baht)</th>
<th>Individual tax (baht)</th>
<th>Joint income (baht)</th>
<th>Joint tax (baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chai</td>
<td>4,000,000</td>
<td>1,040,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>+ Kannika</td>
<td>4,000,000</td>
<td>1,040,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Example 4.17

In 2004-05, John lives singly and his taxable income is £35,885. He pays £8,459.60 in tax. Now assume that John marries Susan. After marriage, John keeps the same taxable income, while Susan earns nothing. John is still taxed at £8,459.60. Susan pays no tax. The total tax liability of this married couple is 8,459.60+0 = £8,459.60. Under individual taxation, the tax burden of this married couple is not reduced after marriage.

<table>
<thead>
<tr>
<th>Status</th>
<th>Individual income (£)</th>
<th>Individual tax (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>John</td>
<td>35,885</td>
<td>8,459.60</td>
</tr>
<tr>
<td>+ Susan</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

2179 In this example, personal allowances are not taken into tax computation. When a tax allowance for a spouse is taken into tax computation, it will reduce the tax burden on a married couple. Such an allowance helps reduce the violation of equity caused by joint taxation.

2180 (100,000x0%)+(400,000x10%)+(500,000x20%)+(3,000,000x30%)=1,040,000

2181 as note 2180

2182 (2,020x10%)+(29,380x22%)+(4,485x40%)=8,459.60

2183 as note 2182
Appendix IX to Chapter Four

Example 4.18

In 2005 Chaichan lives singly and his taxable income is 4,000,000 baht. He pays 1,040,000 baht in tax. Meanwhile, Yod’s taxable income is 2,000,000 baht. Srisamorn, his wife, also has a taxable income of 2,000,000 baht. The combined income of this couple is 4,000,000 baht, which is taxed at 1,040,000 baht (equal to the tax paid by Chaichan).

<table>
<thead>
<tr>
<th>Status</th>
<th>Individual income (baht)</th>
<th>Individual tax (baht)</th>
<th>Joint income (baht)</th>
<th>Joint tax (baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chaichan (single)</td>
<td>4,000,000</td>
<td>1,040,000&lt;sup&gt;2184&lt;/sup&gt;</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Yod + (married)</td>
<td>2,000,000</td>
<td>-</td>
<td>4,000,000</td>
<td>1,040,000&lt;sup&gt;2185&lt;/sup&gt;</td>
</tr>
<tr>
<td>Srisamorn</td>
<td>2,000,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Example 4.19

In 2004-05, John lives singly and his taxable income is £35,885. He pays £8,459.60 in tax. Meanwhile, David’s taxable income is £17,942.50. Jenny, his wife, also has a taxable income of £17,942.50. David is taxed at £3,704.95, as is Jenny. The total tax liability of this couple is 3,704.95 + 3,704.95 = £7,409.90. Accordingly, a single person pays more tax than a two-earner married couple under individual taxation.

<table>
<thead>
<tr>
<th>Status (married)</th>
<th>Individual income (£)</th>
<th>Individual tax (£)</th>
<th>Total tax of the couple (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>John (single)</td>
<td>35,885</td>
<td>8,459.60&lt;sup&gt;2186&lt;/sup&gt;</td>
<td>8,459.60</td>
</tr>
<tr>
<td>David</td>
<td>17,942.50</td>
<td>3,704.95&lt;sup&gt;2187&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Jenny</td>
<td>17,942.50</td>
<td>3,704.95&lt;sup&gt;2188&lt;/sup&gt;</td>
<td>7,409.90</td>
</tr>
<tr>
<td></td>
<td><strong>35,885.00</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

<sup>2184</sup> (100,000×0%)+(400,000×10%)+(500,000×20%)+(3,000,000×30%)=1,040,000
<sup>2185</sup> as note 2184
<sup>2186</sup> (2,020x10%)+(29,380x22%)+(4,485x40%)=8,459.60
<sup>2187</sup> (2,020x10%)+(15,922.50x22%)=3,704.95
<sup>2188</sup> as note 2187

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### Appendix X to Chapter Four

Summary of the taxable capacity of the same and different groups of taxpayers, and the operation of joint and individual taxation to achieve equity

<table>
<thead>
<tr>
<th>At the same level of taxable income</th>
<th>Who has a greater taxable capacity? (Who should pay more tax?)</th>
<th>Extent to which joint taxation works to achieve equity</th>
<th>Extent to which individual taxation works to achieve equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. a two-earner married couple VS a two-earner married couple</td>
<td>Equal</td>
<td>****</td>
<td></td>
</tr>
<tr>
<td>2. a one-earner married couple VS a two-earner married couple</td>
<td>equal, or a one-earner married couple</td>
<td>****</td>
<td>****</td>
</tr>
<tr>
<td>3. a one-earner married couple VS a one-earner married couple</td>
<td>Equal</td>
<td>****</td>
<td>****</td>
</tr>
<tr>
<td>4. two single persons living separately VS a two-earner married couple</td>
<td>a two-earner married couple</td>
<td>****</td>
<td></td>
</tr>
<tr>
<td>5. two single persons living separately VS a one-earner married couple</td>
<td>a one-earner married couple</td>
<td>****</td>
<td>****</td>
</tr>
<tr>
<td>6. an unmarried couple VS a married couple</td>
<td>Equal</td>
<td>****</td>
<td></td>
</tr>
<tr>
<td>7. an unmarried couple VS two single persons living separately</td>
<td>an unmarried couple</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. a single person VS an one-earner married couple</td>
<td>a single person</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. a single person VS a two-earner married couple</td>
<td>a single person</td>
<td>****</td>
<td></td>
</tr>
</tbody>
</table>

**Remark:** Having **** means the achievement of a goal.
Appendix XI to Chapter Four

Tax bands and rates in Thailand, 1982-1985

<table>
<thead>
<tr>
<th>Tax bands (baht per year)</th>
<th>Tax rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-30,000</td>
<td>7</td>
</tr>
<tr>
<td>30,001-60,000</td>
<td>10</td>
</tr>
<tr>
<td>60,001-100,000</td>
<td>13</td>
</tr>
<tr>
<td>100,001-150,000</td>
<td>17</td>
</tr>
<tr>
<td>150,001-200,000</td>
<td>22</td>
</tr>
<tr>
<td>200,001-270,000</td>
<td>28</td>
</tr>
<tr>
<td>270,001-350,000</td>
<td>35</td>
</tr>
<tr>
<td>350,001-450,000</td>
<td>40</td>
</tr>
<tr>
<td>450,001-600,000</td>
<td>45</td>
</tr>
<tr>
<td>600,001-800,000</td>
<td>50</td>
</tr>
<tr>
<td>800,001-1,000,000</td>
<td>55</td>
</tr>
<tr>
<td>1,000,001-2,000,000</td>
<td>60</td>
</tr>
<tr>
<td>Over 2,000,000</td>
<td>65</td>
</tr>
</tbody>
</table>

Tax bands and rates in Thailand, at present (2005)

<table>
<thead>
<tr>
<th>Tax bands (baht per year)</th>
<th>Tax rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-100,000</td>
<td>0</td>
</tr>
<tr>
<td>100,001-500,000</td>
<td>10</td>
</tr>
<tr>
<td>500,001-1,000,000</td>
<td>20</td>
</tr>
<tr>
<td>1,000,001-4,000,000</td>
<td>30</td>
</tr>
<tr>
<td>Over 4,000,000</td>
<td>37</td>
</tr>
</tbody>
</table>

The proposed tax-rate schedule for low-income groups

<table>
<thead>
<tr>
<th>Tax bands (baht per year)</th>
<th>Tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-100,000</td>
<td>0</td>
</tr>
<tr>
<td>100,001-500,000</td>
<td>8</td>
</tr>
</tbody>
</table>

The proposed tax-rate schedule for high-income groups

<table>
<thead>
<tr>
<th>Tax bands (baht per year)</th>
<th>Tax rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-500,000</td>
<td>8</td>
</tr>
<tr>
<td>over 500,000</td>
<td>35</td>
</tr>
</tbody>
</table>
Example 4.20 below will show that the combined incomes of low-income married couple will be slightly raised to a higher tax band, and the combined incomes of (lower) middle-income married couples will not be raised to a higher tax band, as a result of changes in the progressive rate structure by reducing tax rates and tax bands as well as widening tax bands. This example will also show that (lower) middle-income married couples will pay less in tax in the case of wide tax bands and more in tax in the case of narrow tax bands. In addition, this example will show that if the tax-rate schedule for low-income groups in the proposed two tax-rate schedules (as discussed in Chapter Two) were put into practice, the tax liabilities of low-income and (lower) middle-income married couples would not be increased too much after marriage.

Example 4.20

(1) In 2005, Somchai, a single person, has a taxable income of 10,000 baht. Sudarat, also single, has a taxable income of 100,000 baht. Now assume that Somchai marries Sudarat. Somchai keeps a taxable income of 10,000 baht, and Sudarat keeps a taxable income of 100,000 baht. If the tax schedule of 1982-1985 was still enforceable in 2005, before marriage, Somchai would pay 700 baht in tax, and Sudarat would pay 10,300 baht in tax. After marriage, the combined income of the Somchai-Sudarats (110,000 baht) would be taxed at 12,000 baht. After marriage, the Somchai-Sudarats (a low-income married couple) would pay a higher tax of 1,000 baht.

(2) When the tax schedule of 2005 is enforceable, Somchai who is single person and has a taxable income of 10,000 baht pays no tax before marriage in 2005. Sudarat who is also single and has a taxable income of 100,000 baht pays no tax either in 2005. Now assume that Somchai marries Sudarat. Somchai keeps a taxable income of 10,000 baht, and Sudarat keeps a taxable income of 100,000 baht. Their combined income of 110,000 baht is taxed at 1,000 baht.

\[\begin{align*}
\text{2189} & \quad (10,000 \times 7\%) = 700 \\
\text{2190} & \quad (30,000 \times 7\%) + (30,000 \times 10\%) + (40,000 \times 13\%) = 10,300 \\
\text{2191} & \quad (30,000 \times 7\%) + (30,000 \times 10\%) + (40,000 \times 13\%) + (10,000 \times 17\%) = 12,000 \\
\text{2192} & \quad 12,000 - (10,300 + 700) = 1,000 \\
\text{2193} & \quad (10,000 \times 0\%) = 0 \\
\text{2194} & \quad (100,000 \times 0\%) = 0 \\
\text{2195} & \quad (100,000 \times 0\%) + (10,000 \times 10\%) = 1,000 
\end{align*}\]
marriage, the Somchai-Sudarats (a low-income married couple) pay a higher tax of 1,000 baht.\textsuperscript{2196}

(3) When the proposed tax-rate schedule for low-income groups as discussed in Chapter Two was enforceable in 2005, after marriage, the Somchai-Sudarats would pay a slightly higher tax. That is, before marriage, Somchai (as a single person) would pay no tax\textsuperscript{2197}, and Sudarat (as a single person) pays no tax either.\textsuperscript{2198} After marriage, the combined income of the Somchai-Sudarats (110,000 baht) would be taxed at 800 baht.\textsuperscript{2199} The Somchai-Sudarats (a low-income married couple) pay a higher tax of 800 baht.\textsuperscript{2200}

(4) In 2005, Patpong lives singly and his taxable income is 400,000 baht. Assuming that if the tax schedule of 1982-1985 was still enforceable in 2005, Patpong, whose taxable income is 400,000 baht, would be subject to tax at 7%, 10%, 13%, 17%, 22%, 28%, 35%, up to 40%, and he would pay 97,400 baht in tax.\textsuperscript{2201} Pintip, whose taxable income is 100,000 baht, would be subject to tax at 7%, 10%, up to 13%, and she would pay 10,300 baht in tax.\textsuperscript{2202} If Patpong married Pintip, the combined income of the Patpong-Pintips (500,000 baht) would be pushed into a higher tax band than 40%. Now, the Patpong-Pintips would be taxed at 7%, 10%, 13%, 17%, 22%, 28%, 35%, 40%, up to 45%. After marriage, the Patpong-Pintips would pay 139,900 baht in tax.\textsuperscript{2203} The Patpong-Pintips (a (lower) middle-income married couple) would pay a higher tax of 32,200 baht.\textsuperscript{2204}

(5) When the tax schedule of 2005 is enforceable, Patpong who lives singly and his taxable income is 400,000 baht is subject to 0% tax on income up to 100,000 baht, and 10% tax on income from 100,001 to 400,000 baht in 2005. He pays 30,000 baht in tax.\textsuperscript{2205} Pintip who lives singly and her taxable income is 100,000 baht is

\begin{align*}
1,000 & - (0 + 0) = 1,000 \\
(10,000 \times 0\%) & = 0 \\
(100,000 \times 0\%) & = 0 \\
(100,000 \times 0\%) + (10,000 \times 8\%) & = 800 \\
800 & - (0 + 0) = 800 \\
(30,000 \times 7\%) + (30,000 \times 10\%) + (40,000 \times 13\%) + (50,000 \times 17\%) + (50,000 \times 22\%) + (70,000 \times 28\%) + (80,000 \times 35\%) + (50,000 \times 40\%) & = 97,400 \\
(30,000 \times 7\%) + (30,000 \times 10\%) + (40,000 \times 13\%) & = 10,300 \\
(30,000 \times 7\%) + (30,000 \times 10\%) + (40,000 \times 13\%) + (50,000 \times 17\%) + (50,000 \times 22\%) + (70,000 \times 28\%) + (80,000 \times 35\%) + (100,000 \times 40\%) + (50,000 \times 45\%) & = 139,900 \\
139,900 - (97,400 + 10,300) & = 32,200 \\
(100,000 \times 0\%) + (300,000 \times 10\%) & = 30,000
\end{align*}
subject to 0% tax on income up to 100,000 baht. She pays no tax. If Patpong married Pintip, the combined income of the Patpong-Pintips (500,000 baht) would not be pushed into a higher tax band than 10%. The Patpong-Pintips would still be taxed at 0% (the first 100,000 baht), and 10% (100,001-500,000 baht). After marriage, the Patpong-Pintips would pay 40,000 baht in tax. The Patpong-Pintips (a (lower) middle-income married couple) would pay a higher tax of 10,000 baht.

(6) When the proposed tax-rate schedule for low-income groups as discussed in Chapter Two was enforceable in 2005, after marriage, the Patpong-Pintips would pay a slightly higher tax. That is, before marriage, Patpong (as a single person) would pay 24,000 baht in tax, and Pintip (as a single person) pays no tax. After marriage, the combined income of the Patpong-Pintips (500,000 baht) would be taxed at 32,000 baht. The Patpong-Pintips (a (lower) middle-income married couple) pay a higher tax of 8,000 baht.

Example 4.21 below will show that changes in the progressive rate structure under the present Thai tax-rate schedule (by reducing tax rates and tax bands as well as widening tax bands) benefit (upper) middle-income and high-income married couples, but do not benefit highest-income married couples, as compared to the past.

This example will also show that if the tax-rate schedule for high-income groups in the proposed two tax-rate schedules (as discussed in Chapter Two) were put into practice, (upper) middle-income married couples would pay higher tax (after marriage) than if they would as single persons. And they would pay a higher tax (after marriage) more than if they pay a higher tax (after marriage) under the present Thai tax-rate schedule. Additionally, under the proposed two tax-rate schedules, (upper) middle-income married couples would pay more tax than if they pay under the present Thai tax-rate schedule. This promotes vertical equity/redistribution.

\[2206 (100,000 \times 0\%) = 0\]
\[2207 (100,000 \times 0\%) + (400,000 \times 10\%) = 40,000\]
\[2208 40,000 - (30,000 + 0) = 10,000\]
\[2209 (100,000 \times 0\%) + (300,000 \times 8\%) = 24,000\]
\[2210 (100,000 \times 0\%) = 0\]
\[2211 (100,000 \times 0\%) + (400,000 \times 8\%) = 32,000\]
\[2212 32,000 - (24,000 + 0) = 8,000\]
In addition, this example will show that if the tax-rate schedule for high-income groups in the proposed two tax-rate schedules were put into practice, high-income and highest-income married couples would pay higher tax (after marriage) than if they would as single persons. But, they would pay a higher tax (after marriage) less than if they pay a higher tax (after marriage) under the present Thai tax-rate schedule. Nevertheless, under the proposed two tax-rate schedules, high-income and highest-income married couples would pay more tax than if they pay under the present Thai tax-rate schedule. This would also promote vertical equity/redistribution.

**Example 4.21**

(1) In 2005, Jirasak, a single person, has a taxable income of 800,000 baht. Sirirat, also single, has a taxable income of 200,000 baht. Now assume that Jirasak marries Sirirat. Jirasak keeps a taxable income of 800,000 baht, and Sirirat keeps a taxable income of 200,000 baht. If the tax schedule of 1982-1985 was still enforceable in 2005, before marriage, Jirasak would pay 284,900 baht in tax\(^\text{2213}\), and Sirirat would pay 29,800 baht in tax.\(^\text{2214}\) After marriage, the combined income of the Jirasak-Sirirats (1,000,000 baht) would be taxed at 394,900 baht.\(^\text{2215}\) After marriage, the Jirasak-Sirirats (an (upper) middle-income married couple) would pay a higher tax of 80,200 baht.\(^\text{2216}\)

(2) When the tax schedule of 2005 is enforceable, Jirasak who is single person and has a taxable income of 800,000 baht pays 100,000 baht in tax before marriage in 2005.\(^\text{2217}\) Sirirat who is also single and has a taxable income of 200,000 baht pays 10,000 baht in tax before marriage in 2005.\(^\text{2218}\) Now assume that Jirasak marries Sirirat. Jirasak keeps a taxable income of 800,000 baht, and Sirirat keeps a taxable income of 200,000 baht. Their combined income of 1,000,000 baht is taxed at 140,000 baht.\(^\text{2219}\) After marriage, the Jirasak-Sirirats pay a higher tax of 30,000

\(^{2213}\)(30,000\times 7\%)+(30,000\times 10\%)+(40,000\times 13\%)+(50,000\times 17\%)+(50,000\times 22\%)+(70,000\times 28\%)+(80,000\times 35\%)+(100,000\times 40\%)+(150,000\times 45\%)+(200,000\times 50\%)=284,900

\(^{2214}\)(30,000\times 7\%)+(30,000\times 10\%)+(40,000\times 13\%)+(50,000\times 17\%)+(50,000\times 22\%)=29,800

\(^{2215}\)(30,000\times 7\%)+(30,000\times 10\%)+(40,000\times 13\%)+(50,000\times 17\%)+(50,000\times 22\%)+(70,000\times 28\%)+(80,000\times 35\%)+(100,000\times 40\%)+(150,000\times 45\%)+(200,000\times 50\%)=394,900

\(^{2216}\)394,900-(284,900+29,800)=80,200

\(^{2217}\)(100,000\times 0\%)+(400,000\times 10\%)+(300,000\times 20\%)=100,000

\(^{2218}\)(100,000\times 0\%)+(100,000\times 10\%)=10,000

\(^{2219}\)(100,000\times 0\%)+(400,000\times 10\%)+(500,000\times 20\%)=140,000
The Jirasak-Sirirats (an (upper) middle-income married couple) pay a higher tax (after marriage) under the tax schedule of 2005 (30,000 baht) less than if they would pay a higher tax (after marriage) under the tax schedule of 1982-1985 (80,200 baht, as mentioned in (1)). This means that changes in the progressive rate structure under the present Thai tax-rate schedule benefit an (upper) middle-income married couple.

(3) When the proposed two tax-rate schedules were enforceable in 2005, the Jirasak-Sirirats (an (upper) middle-income married couple) would pay a higher tax (after marriage) more than if they pay a higher tax (after marriage) under the present Thai tax-rate schedule. That is, before marriage, Jirasak (as a single person) would pay 145,000 baht in tax, and Sirirat (as a single person) pays 8,000 baht in tax. After marriage, the combined income of the Jirasak-Sirirats (1,000,000 baht) would be taxed at 215,000 baht. After marriage, the Jirasak-Sirirats pay a higher tax of 62,000 baht under the proposed two tax-rate schedules. As mentioned in (2), after marriage, the Jirasak-Sirirats pay a higher tax of 30,000 baht under the present Thai tax-rate schedule.

Additionally, under the proposed two tax-rate schedules, the Jirasak-Sirirats would pay more tax than if they pay under the present Thai tax-rate schedule. This would promote vertical equity/redistribution. (Under the present Thai tax-rate schedule, the combined income of the Jirasak-Sirirats (1,000,000 baht) is taxed at 140,000 baht (as discussed in (2)), but under the proposed two tax-rate schedules, the combined income of the the Jirasak-Sirirats (1,000,000 baht) would be taxed at 215,000 baht (as discussed in (3)).

(4) In 2005, Somchai, a single person, has a taxable income of 2,000,000 baht. Sudarat, also single, has a taxable income of 2,000,000 baht. Now assume that Somchai marries Sudarat. Somchai keeps a taxable income of 2,000,000 baht, and Sudarat keeps a taxable income of 2,000,000 baht. If the tax schedule of 1982-1985 was still enforceable in 2005, before marriage, Somchai would pay 994,900 baht in

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2220 140,000-(100,000+10,000)=30,000
2221 (500,000x8%)+(300,000x35%)=145,000
2222 (100,000x0%)+(100,000x8%)=8,000
2223 (500,000x8%)+(500,000x35%)=215,000
2224 215,000-(145,000+8,000)=62,000

---
tax, and Sudarat would pay 994,900 baht in tax. After marriage, the combined income of the Somchai-Sudarats (4,000,000 baht) would be taxed at 2,294,900 baht. After marriage, the Somchai-Sudarats (a high-income married couple) would pay a higher tax of 305,100 baht.

(5) When the tax schedule of 2005 is enforceable, Somchai who is single person and has a taxable income of 2,000,000 baht pays 440,000 baht in tax before marriage in 2005. Sudarat who is also single and has a taxable income of 2,000,000 baht pays 440,000 baht in tax before marriage in 2005. Now assume that Somchai marries Sudarat. Somchai keeps a taxable income of 2,000,000 baht, and Sudarat keeps a taxable income of 2,000,000 baht. Their combined income of 4,000,000 baht is taxed at 1,040,000 baht. After marriage, the Somchai-Sudarats pay a higher tax of 160,000 baht. The Somchai-Sudarats (a high-income married couple) pay a higher tax (after marriage) under the tax schedule of 2005 (160,000 baht) less than if they would pay a higher tax (after marriage) under the tax schedule of 1982-1985 (305,100 baht, as mentioned in (4)). This means that changes in the progressive rate structure under the present Thai tax-rate schedule benefit a high-income married couple.

(6) When the proposed tax-rate schedule for high-income groups was enforceable in 2005, the Somchai-Sudarats (a high-income married couple) would pay a higher tax (after marriage) less than if they pay a higher tax (after marriage) under the present Thai tax-rate schedule. That is, before marriage, Somchai (as a single person) would pay 565,000 baht in tax, and Sudarat (as a single person) pays 565,000 baht in tax. After marriage, the combined income of the Somchai-
Sudarats (4,000,000 baht) would be taxed at 1,265,000 baht. The Somchai-Sudarats pay a higher tax of 135,000 baht. Under the present Thai tax-rate schedule, the Somchai-Sudarats pay a higher tax of 160,000 baht after marriage, as mentioned in (5).

(7) Although the Somchai-Sudarats (a high-income married couple) would pay a higher tax (after marriage) under the proposed tax-rate schedule for high-income groups less than if they pay a higher tax (after marriage) under the present Thai tax-rate schedule, the Somchai-Sudarats would pay more tax than if they pay under the present Thai tax-rate schedule. This would promote vertical equity/redistribution. (Under the present Thai tax-rate schedule, the combined income of the Somchai-Sudarats (4,000,000 baht) is taxed at 1,040,000 baht (as discussed in (5)), but under the proposed tax-rate schedule for high-income groups, the combined income of the Somchai-Sudarats (4,000,000 baht) would be taxed at 1,265,000 baht (as discussed in (6)).

(8) In 2005, Taksin, a single person, has a taxable income of 4,000,000 baht. Potjanee, also single, has a taxable income of 4,000,000 baht. Now assume that Taksin marries Potjanee. Taksin keeps a taxable income of 4,000,000 baht, and Potjanee keeps a taxable income of 4,000,000 baht. If the tax schedule of 1982-1985 was still enforceable in 2005, before marriage, Taksin would pay 2,294,900 baht in tax, and Potjanee would pay 2,294,900 baht in tax. After marriage, the combined income of the Taksin-Potjaneees (8,000,000 baht) would be taxed at 4,894,900 baht. After marriage, The Taksin-Potjaneees (a highest-income married couple) would pay a higher tax of 305,100 baht.

(9) When the tax schedule of 2005 is enforceable, Taksin who is single person and has a taxable income of 4,000,000 baht pays 1,040,000 baht in tax before...
marriage in 2005. Potjanee who is also single and has a taxable income of 4,000,000 baht pays 1,040,000 baht in tax before marriage in 2005. Now assume that Taksin marries Potjanee. Taksin keeps a taxable income of 4,000,000 baht, and Potjanee keeps a taxable income of 4,000,000 baht. Their combined income of 8,000,000 baht is taxed at 2,520,000 baht. After marriage, the Taksin-Potjanee pay a higher tax of 440,000 baht. The Taksin-Potjanee (a highest-income married couple) pay a higher tax (after marriage) under the tax schedule of 2005 (440,000 baht) more than if they would pay a higher tax (after marriage) under the tax schedule of 1982-1985 (305,100 baht, as mentioned in (8)). This means that changes in the progressive rate structure under the present Thai tax-rate schedule do not benefit a highest-income married couple.

(10) When the proposed tax-rate schedule for high-income groups was enforceable in 2005, the Taksin-Potjanee (a highest-income married couple) would pay a higher tax (after marriage) less than if they pay a higher tax (after marriage) under the present Thai tax-rate schedule. That is, before marriage, Taksin (as a single person) would pay 1,265,000 baht in tax, and Potjanee (as a single person) pays 1,265,000 baht in tax. After marriage, the combined income of the Taksin-Potjanee (8,000,000 baht) would be taxed at 2,665,000 baht. The Taksin-Potjanee pay a higher tax of 135,000 baht. Under the present Thai tax-rate schedule, the Taksin-Potjanee pay a higher tax of 440,000 baht after marriage, as mentioned in (9)).

(11) Although the Taksin-Potjanee (a highest-income married couple) would pay a higher tax (after marriage) under the proposed tax-rate schedule for high-income groups less than if they pay a higher tax (after marriage) under the present Thai tax-rate schedule, the Taksin-Potjanee would pay more tax than if they pay under the present Thai tax-rate schedule. This would promote vertical equity/redistribution. (Under the present Thai tax-rate schedule, the combined

\[\begin{align*}
2241 & \quad (100,000 \times 0\%)+(400,000 \times 10\%) +(500,000 \times 20\%) +(3,000,000 \times 30\%) = 1,040,000 \\
2242 & \quad \text{as note 2241} \\
2243 & \quad \text{as note 2241} \\
2244 & \quad 2,520,000 - (1,040,000 + 1,040,000) = 440,000 \\
2245 & \quad (500,000 \times 8\%) +(3,500,000 \times 35\%) = 1,265,000 \\
2246 & \quad \text{as note 2245} \\
2247 & \quad 2,665,000 - (1,265,000 + 1,265,000) = 135,000 \\
2248 & \quad \text{as note 2245}
\end{align*}\]
income of the Taksin-Potjanees (8,000,000 baht) is taxed at 2,520,000 baht (as discussed in (9)), but under the proposed tax-rate schedule for high-income groups, the combined income of the Taksin-Potjanees (8,000,000 baht) would be taxed at 2,665,000 baht (as discussed in (10)).
Appendix XII to Chapter Four

Example 22

In 2005, Somchai and Sudarat, a married couple, both earn employment income. Sudarat elects to file a return and pay tax separately from Somchai. Somchai’s taxable income is 4,000,000 baht. He is taxed at 1,040,000 baht. Sudarat’s taxable income is 4,000,000 baht. She is also taxed at 1,040,000 baht. The total tax liability of this couple is (1,040,000+1,040,000) = 2,080,000 baht.

Meanwhile, Jirasak earns employment income. Sirirat, his wife, earns income from trade, interest, brokerage and rent. Unlike Sudarat, Sirirat cannot file a return and pay tax on any of her income separately from her husband. Jirasak’s taxable income is 4,000,000 baht. Sirirat has a taxable income from her trade of 1,000,000 baht, interest of 1,000,000 baht, brokerage of 1,000,000 baht, and rent of 1,000,000 baht. All of Sirirat’s incomes are aggregated with Jirasak’s for income tax purposes. Consequently, the aggregated taxable income of 8,000,000 baht is taxed at 2,520,000 baht.

Although the Somchai-Sudarats and the Jirasak-Sirirats have equal taxable incomes and are regarded as having equal taxable capacity, the Somchai-Sudarats pay less tax than the Jirasak-Sirirats resulting from Sudarat’s election for separate taxation. Therefore, the rules of wife’s election bring about horizontal inequity.

\[2249 \text{(100,000x0%) + (400,000x10%) + (500,000x20%) + (3,000,000x30%) = 1,040,000}\]
\[2250 \text{(100,000x0%) + (400,000x10%) + (500,000x20%) + (3,000,000x30%) + (4,000,000x37%) = 2,520,000}\]
Appendix XIII to Chapter Four

Table A: Tax bands and rates in the UK, 1974-1975

<table>
<thead>
<tr>
<th>Bands of taxable income (£ per year)</th>
<th>Rate of tax (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4,500</td>
<td>33</td>
</tr>
<tr>
<td>4,501-5,000</td>
<td>38</td>
</tr>
<tr>
<td>5,001-6,000</td>
<td>43</td>
</tr>
<tr>
<td>6,001-7,000</td>
<td>48</td>
</tr>
<tr>
<td>7,001-8,000</td>
<td>53</td>
</tr>
<tr>
<td>8,001-10,000</td>
<td>58</td>
</tr>
<tr>
<td>10,001-12,000</td>
<td>63</td>
</tr>
<tr>
<td>12,001-15,000</td>
<td>68</td>
</tr>
<tr>
<td>15,001-20,000</td>
<td>73</td>
</tr>
<tr>
<td>Over 20,000</td>
<td>83</td>
</tr>
</tbody>
</table>

Source: Inland Revenue

Table B: Tax bands and rates in the UK, 1982-1983

<table>
<thead>
<tr>
<th>Bands of taxable income (£ per year)</th>
<th>Rate of tax (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-12,800</td>
<td>30</td>
</tr>
<tr>
<td>12,801-15,100</td>
<td>40</td>
</tr>
<tr>
<td>15,101-19,100</td>
<td>45</td>
</tr>
<tr>
<td>19,101-25,300</td>
<td>50</td>
</tr>
<tr>
<td>25,301-31,500</td>
<td>55</td>
</tr>
<tr>
<td>Over 31,500</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: Inland Revenue

Table C: Tax bands and rates in the UK, 2004-2005

<table>
<thead>
<tr>
<th>Bands of taxable income (£ per year)</th>
<th>Rate of tax (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-2,020</td>
<td>10</td>
</tr>
<tr>
<td>2,021-31,400</td>
<td>22</td>
</tr>
<tr>
<td>Over 31,400</td>
<td>40</td>
</tr>
</tbody>
</table>

Source: Inland Revenue

Example 4.23

According the tax schedule of 1974-1975 in Table A, the number of bands was ten, and each band was relatively narrow. There were also ten rates, and each rate was relatively high.

\[2251\) http://www.inlandrevenue.gov.uk/stats/tax_struct.../00ap_a2c_2.html
\[2252\) ibid.
\[2253\) http://www.hmrc.gov.uk/rates/it.htm
Assuming that the tax schedule of 1974-1975 was enforceable in 2004-2005, the following would be the tax liabilities of two married couples (John and Susan, Tony and Amma) with equal taxable incomes (£15,000).

Assuming that in 2004-2005, John’s taxable income is £7,500, and Susan’s is £7,500, John’s tax liability would be £2,850. Susan’s would be £2,850. The total tax liability of this couple would be 2,850+2,850 = £5,700. Meanwhile, Tony’s taxable income is £10,000, and Amma’s is £5,000. Tony’s tax liability would be £4,280. Amma’s would be £1,675. The total tax liability of this couple would be 4,280+1,675 = £5,955, higher than that of the John-Susans.

According to the tax schedule of 1982-1983 in Table B, the number of bands was reduced to six, and each band was wider. The number of rates was also reduced to six, and each rate was lower. Now assuming that the tax schedule of 1982-1983 was enforceable in 2004-2005, John’s tax liability would be £2,250. Susan’s would be £2,250. The total tax liability of this couple would be 2,250+2,250 = £4,500. Meanwhile, Tony’s tax liability would be £3,000. Amma’s would be £1,500. The total tax liability of this couple would be 3,000+1,500 = £4,500, equal to that of the John-Susans.

According to the tax schedule of 2004-2005 in Table C, the number of bands is reduced to three, and each band is much wider (except for the starting rate). The number of rates is also reduced to three, and each rate is much lower. In 2004-05, John’s tax liability is £1,407.60. Susan’s is £1,407.60. The total tax liability of this couple is 1,407.60+1,407.60 = £2,815.20. Meanwhile, Tony’s tax liability is £1,957.60. Amma’s is £857.60. The total tax liability of this couple would be 1,957.60+857.60 = £2,815.20, equal to that of the John-Susans.

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2254 (4,500x33%)+(500x38%)+(1,000x43%)+(1,000x48%)+(500x53%)=2,850
2255 as note 2254
2256 (4,500x33%)+(500x38%)+(1,000x43%)+(1,000x48%)+(1,000x53%)+(2,000x58%)=4,280
2257 (4,500x33%)+(500x38%)=1,675
2258 (7,500x30%)=2,250
2259 as note 2258
2260 (10,000x30%)=3,000
2261 (5,000x30%)=1,500
2262 (2,020x10%)+(5,480x22%)=1,407.60
2263 as note 2262
2264 (2,020x10%)+(7,980x22%)=1,957.60
2265 (2,020x10%)+(2,980x22%)=857.60
Example 4.23 shows that reducing tax rates and the number of tax bands as well as widening tax bands help resolve the problem of the difference in treatment of two low-income married couples where the distribution of income between both couples is different.

In addition, if the tax-rate schedule for low-income groups in the proposed two tax-rate schedules (as discussed in Chapter Two) were put into practice, the problem of the difference in treatment of two low-income married couples where the distribution of income between both couples is different can be resolved.

Table D: The proposed tax-rate schedule for low-income groups

<table>
<thead>
<tr>
<th>Bands of taxable income (£ per year)</th>
<th>Tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-2,000</td>
<td>0</td>
</tr>
<tr>
<td>2,001-10,000</td>
<td>8</td>
</tr>
</tbody>
</table>

From Example 4.23, when the proposed tax-rate schedule for low-income groups in Table D was enforceable in 2004-2005, John’s tax liability is £440.2266 Susan’s is £440.2267 The total tax liability of this couple is 440+440 = £880. Meanwhile, Tony’s tax liability is £640.2268 Amma’s is £240.2269 The total tax liability of this couple would be 640+240 = £880, equal to that of the John-Susans.

Example 4.24

Assuming that the tax schedule of 1974-1975 was enforceable in 2004-2005, the following would be the tax liabilities of two wealthy married couples (Jacob and Sonia, Tom and Ammy) with equal taxable incomes (£80,000).

Assuming that Jacob’s taxable income is £40,000, and Sonia’s is £40,000, Jacob’s tax liability would be £27,825.2270 Sonia’s would be £27,825.2271 The total tax liability of this couple would be 27,825+27,825 = £55,650. Meanwhile, Tom’s taxable income is £68,000, and Ammy’s is £12,000. Tom’s tax liability would be £68,000x33%+(5,000x33%)+(20,000x33%)=27,825

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2266 (2,000x0%)+(5,500x8%)=440
2267 as note 2266
2268 (2,000x0%)+(8,000x8%)=640
2269 (2,000x0%)+(3,000x8%)=240
2270 (4,500x33%)+(500x38%)+(1,000x43%)+(1,000x48%)+(1,000x53%)+(2,000x58%)+(2,000x63%)+(3,000x68%)+(5,000x73%)+(20,000x83%)=27,825
2271 as note 2270
£51,065\textsuperscript{2272} and Ammy’s would be £5,535\textsuperscript{2273} The total tax liability of this couple would be $51,065 + 5,535 = £56,600$, which is higher than that of the Jacob-Sonias.

Now assuming that the tax schedule of 1982-1983 was enforceable in 2004-2005, Jacob’s tax liability would be £18,170\textsuperscript{2274} Sonia’s would be £18,170\textsuperscript{2275} The total tax liability of this couple would be $18,170 + 18,170 = £36,340$. Meanwhile, Tom’s tax liability would be £34,970\textsuperscript{2276} Ammy’s would be £3,600\textsuperscript{2277} The total tax liability of this couple would be $34,970 + 3,600 = £38,570$, which is higher than that of the Jacob-Sonias.

Compared to those in the tax schedule of 1974-75, the number of bands and rates in the tax schedule of 1982-1983 were fewer, each band was wider, and each rate was lower. Despite these changes, there was still a difference in treatment between wealthy two-earner married couples where the distribution of income between both couples was different. This different treatment still exists under the tax schedule of 2004-2005, even though there are fewer bands and rates, and each band is much wider (except the starting rate) and each rate much lower.

In 2004-2005, Jacob’s tax liability is £10,105.60\textsuperscript{2278} Sonia’s is £10,105.60\textsuperscript{2279} The total tax liability of this couple is $10,105.60 + 10,105.60 = £20,211.20$. Meanwhile, Tom’s tax liability is £21,305.60\textsuperscript{2280} Ammy’s is £2,397.60\textsuperscript{2281} The total tax liability of this couple is $21,305.60 + 2,397.60 = £23,703.20$, which is higher than that of the Jacob-Sonias.

However, if the tax-rate schedule for high-income groups in the proposed two tax-rate schedules (as discussed in Chapter Two) were put into practice, the problem of the difference in treatment of two wealthy married couples where the distribution of income between both couples is different can be resolved.

\textsuperscript{2272}$4,500 \times 33\% + (500 \times 38\%) + (1,000 \times 43\%) + (1,000 \times 48\%) + (1,000 \times 53\%) + (2,000 \times 58\%) + (2,000 \times 63\%) \\
+ (3,000 \times 68\%) + (5,000 \times 73\%) + (48,000 \times 83\%) = 51,065$

\textsuperscript{2273}$4,500 \times 33\% + (500 \times 38\%) + (1,000 \times 43\%) + (1,000 \times 48\%) + (1,000 \times 53\%) + (2,000 \times 58\%) + (2,000 \times 63\%) = 5,535$

\textsuperscript{2274}$12,800 \times 30\% + (2,300 \times 40\%) + (4,000 \times 45\%) + (6,200 \times 50\%) + (6,200 \times 55\%) + (8,500 \times 60\%) = 18,170$

\textsuperscript{2275}$12,800 \times 30\% + (2,300 \times 40\%) + (4,000 \times 45\%) + (6,200 \times 50\%) + (6,200 \times 55\%) + (36,500 \times 60\%) = 34,970$

\textsuperscript{2276}$12,000 \times 30\% = 36,000$

\textsuperscript{2277}$2,020 \times 10\% + (29,380 \times 22\%) + (8,600 \times 40\%) = 10,105.60$

\textsuperscript{2278}$2,020 \times 10\% + (29,380 \times 22\%) + (36,600 \times 40\%) = 21,305.60$
Table E: The proposed tax-rate schedule for high-income groups

<table>
<thead>
<tr>
<th>Bands of taxable income (£ per year)</th>
<th>Tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-10,000</td>
<td>8</td>
</tr>
<tr>
<td>over 10,000</td>
<td>35</td>
</tr>
</tbody>
</table>

From Example 4.24, when the proposed tax-rate schedule for high-income groups in Table E was enforceable in 2004-2005, Jacob's tax liability is £11,300.2282 Sonia's is £11,300.2283 The total tax liability of this couple is 11,300+11,300 = £22,600. Meanwhile, Tom's tax liability is £21,100.2284 Ammy's is £1,500.2285 The total tax liability of this couple would be 21,100+1500 = £22,600, equal to that of the Jacob-Sonias.

2281 \((2,020 \times 10\%) + (9,980 \times 22\%) = 2,397.60\)
2282 \((10,000 \times 8\%) + (30,000 \times 35\%) = 11,300\)
2283 As note 2282
2284 \((10,000 \times 8\%) + (58,000 \times 35\%) = 21,100\)
2285 \((10,000 \times 8\%) + (2,000 \times 35\%) = 1,500\)
Example 4.25

Assuming that a husband has no other income and owns property (land and building). If he lets out his property under his own name, he may pay tax on rental at the starting rate and the basic rate. If his taxable income from property in 2004-05 is £4,040, he will pay a 10% tax on the first £2,020 and a 22% tax on the next £2,020. However, if he transfers the property to the couple's joint names before letting it out, he and his wife will each be taxed on half the rental. It is confirmed that “if an asset which was held by one spouse alone is transferred into joint ownership, the equal apportionment rule only applies to income arising after the date of the transfer.”

On this basis, the husband will pay a 10% tax on £2,020, and the wife will also pay a 10% tax on £2,020 if she has no other income. Accordingly, a married couple can save tax by transferring the property into the couple’s joint names.

Example 4.26

The husband holds a bank deposit account of £300,000. After marriage, the asset is put in the joint names of the husband and his wife. Assuming that in 2004-05 the interest rate is 10% per annum. The untaxed interest of £15,000 will be treated as the wife’s income, which will save a significant amount of tax if she has no other income, also assuming that the husband has already been subject to the higher rate of 40% in this tax year. Instead of the husband being charged 40% tax on the interest of £30,000 (i.e. a total of £12,000), he will pay a tax of £6,000. The wife will be taxed as follows:

<table>
<thead>
<tr>
<th>Untaxed interest</th>
<th>£15,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less personal allowance</td>
<td>(£4,745)</td>
</tr>
<tr>
<td>Taxable income</td>
<td>£10,255</td>
</tr>
<tr>
<td>Taxes due: 0-2,020 at 10%</td>
<td>£202</td>
</tr>
<tr>
<td>2,021-10,255 at 20%</td>
<td>£1,646.80</td>
</tr>
<tr>
<td></td>
<td>= £1,848.80</td>
</tr>
</tbody>
</table>

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2286 Simon's Direct Tax Service, op.cit.(note149), p.6105
2287 This example is adapted from Foreman's example. (Foreman, op.cit.(note1572), pp.206-207)
2288 Where an individual has savings income in excess of the starting rate limit, he/she will be taxed at the lower rate of 20% up to the basic rate limit (£30,500 for the tax year 2003-04). (http://www.inlandrevenue.gov.uk/rates/savings.htm)
The total tax of the husband and wife is £6,000 + £1,848.80 = £7,848.80. The total tax saving is therefore £12,000 - £7,848.80 = £4,151.20.

**Example 4.27**

Assuming that in 2004-05, the husband already has a taxable income of £35,000, he is subject to a 10% tax rate (£0-£2,020), a 22% tax rate (£2,021-£31,400), and a 40% tax rate (£31,401-£35,000). The wife has a taxable income of £2,020, which is subject to a 10% tax rate.

The husband owns property (land and building). Before letting out his property, he transferred the property into the couple’s joint names. He retains a 30% ownership and his wife holds a 70% share. Both the husband and the wife notify the Revenue that they own the property in unequal shares. If the couple’s taxable income from property in 2004-05 is £3,760, the husband will further be taxed on £1,128 and the wife on £2,632. The husband’s total taxable income in 2004-05 increases to £36,128, which is subject to a 10% rate (£0-£2,021), a 22% rate (£2,021-£31,400), and a 40% rate (£31,401-£36,128). The husband will pay £8,556.80 in tax. Meanwhile, the wife’s total taxable income in 2004-05 increases to £4,652, which is subject to a 10% rate (£0-£2,020), and a 22% rate (£2,021-£4,652). The wife will pay £781.04 in tax. Accordingly, the couple will pay £8,556.80 + £781.04 = £9,337.84 in tax.

Conversely, if, before letting out the property, the property is put into the couple’s joint names (in equal shares), the husband and the wife will each be taxed on half the rental. In this case, the couple will pay more tax than in the previous case if the taxable income from rent in 2004-05 is also £3,760. The husband will be taxed on £1,880 and the wife on £1,880. In this case, the husband’s total taxable income in 2004-05 increases to £36,880, which is subject to a 10% rate (£0-£2,020), a 22% rate (£2,021-£31,400), and a 40% rate (£31,401-£36,880). The husband will pay £8,857.60 in tax. Meanwhile, the wife’s total taxable income in 2004-05 increases to £3,900, which is subject to a 10% rate (£0-£2,020), and a 22% rate (£2,021-£3,900). The wife will pay £615.60 in tax. Accordingly, the couple will pay £8,857.60 + £615.60 = £9,473.20, which is higher than in the previous case. A married couple can therefore avoid higher tax by transferring the property into joint ownership in which the spouses own unequal shares.
Appendix I to Chapter Five

The provisions of the present Constitution (the Constitution of the Kingdom of Thailand B.E. 2540 (1997)) which the Thai Parliament must realize and comply with at the time of the enactment of each tax Act include the following sections.

Section 29 provides that:

"The restriction of such rights and liberties as recognized by the Constitution shall not be imposed on a person except by virtue of the provisions of the law specifically enacted for the purpose determined by this Constitution and only to the extent of necessity and provided that it shall not affect the essential substances of such rights and liberties.

The law under paragraph one shall be of general application and shall not be intended to apply to any particular case or person, provided that the provision of the Constitution authorizing its enactment shall also be mentioned therein.

The provisions of paragraph one and paragraph two shall apply mutatis mutandis to rules or regulations issued by virtue of the provisions of the law."

Section 92 provides that:

"A bill or an organic law bill may be enacted as law only by and with the consent of the National Assembly."

(The National Assembly or Parliament consists of the House of Representatives and the Senate.)

Section 93 provides that:

"After a bill or an organic law bill has already been approved by the National Assembly, the Prime Minister shall present it to the King for signature within twenty days as from the date of the receipt of such bill from the National Assembly [Parliament], and it shall come into force upon its publication in the Government Gazette."

Section 169 provides that:

"A bill or an organic law bill may be introduced only by members of the House of Representatives or the Council of Ministers, but a money bill may be introduced by members of the House of Representative only with the endorsement of the Prime Minister......
A money bill means a bill with provisions dealing with any of the following matters:

(1) the imposition, repeal, reduction, alteration, modification, remission, or regulation of taxes or duties.

(2) ..........

(3) ..........

(4) ..........

If the provisions of any tax Act are contrary to or inconsistent with the four sections above, they shall be unenforceable according to Section 6 of the Constitution.

(The four sections above are translated to English by the Office of the Council of State of Thailand.)
Appendix II to Chapter Five

As noted in Chapter Five, there has been a limitation on the sovereignty of the UK Parliament by the EC Treaty, and this includes tax matters. The EC Treaty contains tax provisions which influence the power of enactment of the UK Parliament as follows:

Article 90 (ex Article 95) of the EC Treaty prohibits a member state from imposing on the products of other member states any internal taxation of any kind in excess of that imposed on similar domestic products; and prohibits a member state from imposing on the products of other member states any internal taxation of such a nature as to afford indirect protection to other products.

Article 91 (ex Article 96) of the EC Treaty prohibits a member state from making any repayment of internal taxation on exported products exceeding the internal taxation imposed on them.

Article 92 (ex Article 98) of the EC Treaty provides that in the case of charges other than turnover taxes, excise duties and other forms of indirect taxation, remissions and repayments in respect of exports to other member states may not be granted, and countervailing charges in respect of imports from Member States may not be imposed unless the measures contemplated have been previously approved for a limited period by the Council acting by a qualified majority on a proposal from the Commission.

Article 93 (ex Article 99) of the EC Treaty requires the Council to adopt provisions for the harmonization of legislation concerning turnover taxes, excise duties and other forms of indirect taxation.

At the first time of the negotiation of the EC Treaty the tax harmonization concentrated only on indirect taxation for the purpose of establishment of a common market "because a common market requires common forms of indirect taxation – that is, taxation of products and transactions"2289, as Williams points out. However, at present there is a tax harmonization effort in relation to direct taxes, particularly corporation tax.2290

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2290 Tiley notes that "work on the harmonised corporate tax base has been slow[;] [however], there was a very detailed paper in 2001 and follow up in 2003." (Tiley, op.cit.(note6), p.32)
In addition, the EC Treaty authorizes the European Parliament, the Council and the Commission to make Regulations, Directives and Decisions ("EC law") in order to carry out their tasks and in accordance with the provisions of the Treaty, which will affect the UK tax legislation.

- "Regulations of the Council of Ministers and the Commission are directly applicable in member states and do not depend for their enforcement on the passing of national legislation. In the UK they have direct effect."\(^{2291}\)

- "Directives are generally binding but require to be separately enacted within member states. In the UK, this is done either by Act of Parliament or by subordinate legislation."\(^{2292}\) If the UK "does not implement the proposals [in the Directive] by the due date [,] the direct effect doctrine\(^{2293}\) will apply to enable the taxpayer to assert the rights set out in the Directive against [the UK]."\(^{2294}\) In addition, "the citizen may be able to recover damages from [the UK] under the principle in Francovich v Italy\(^{2295}\) for failure to implement the Directive."\(^{2296}\)

- "Decisions are addressed to individual member states and are binding on them alone (e.g. those authorising derogations in the UK from the sixth VAT directive)."\(^{2297}\)

EC law has its main impact on the UK tax legislation on VAT and duties of customs and excise, "notably the sixth directive on VAT."\(^{2298}\)

The UK Parliament must not exercise its right to enact tax laws in a manner that conflicts with EC law.\(^{2299}\) Where there is conflict between UK law and EC law, EC law takes precedence over UK law\(^{2300}\); in other words, UK law and "taxes levied in breach of [EC] law are ineffective."\(^{2301}\) In addition, "[where] a tax breaches EC law the UK authority's effort to enforce the tax will be dismissed and any tax already

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\(^{2291}\) CCH Tax Handbook, op.cit.(note12), p.509
\(^{2292}\) ibid.p.509
\(^{2293}\) Collision and Tiley note that "provisions of EC law having direct effect may include both rights under the Treaty and rights under other party of EC law." (Collision and Tiley, op.cit.(note1111), p.7)
\(^{2294}\) ibid.p.7
\(^{2295}\) [1991] ECR I-5357
\(^{2296}\) Collision and Tiley, op.cit.(note1111), p.7
\(^{2297}\) CCH Tax Handbook, op.cit.(note12), p.509
\(^{2298}\) ibid.p.509
\(^{2299}\) Collision and Tiley, op.cit.(note1111), p.6
\(^{2300}\) Lymer et al., op.cit.(note120), p.1/16
paid may be recovered under principles of restitution, in appropriate cases compensation may be ordered. 2302

2301 Collision and Tiley, op. cit. (note 1111), p. 6, and p. 7
2302 ibid. p. 6
Appendix III to Chapter Five

Provisional Collection of Taxes ACT 1968

HM Treasury notes,

"Measures announced in the Budget may take effect before the Finance Bill is enacted. The approval of Budget Resolutions permit this to take place...... These resolutions, once passed by the House of Commons, authorise the imposition of certain taxes or of changes in their rates." 2303

The temporary statutory effect of House of Commons resolutions derived from the Provisional Collection of Taxes Act 1913 (now PCTA 1968). Under PCTA 1968, where the House of Commons passes a resolution which provides for the renewal of a tax including its reimposition or for the variation or abolition of any existing tax, and contains a declaration that it is expedient in the public interest that the resolution should have statutory effect, the resolution shall, for the specified period 2304, have statutory effect as if contained in an Act of Parliament.

Where the resolution provides for the renewal of a tax, all enactments which were in force with reference to that tax as last imposed by Act of Parliament shall during that period have full force and effect with respect to the tax as renewed by the resolution. This implies that the resolutions of the Houses of Commons on taxation matters announced in the Budget shall have temporary effect even though the Finance Act has not become the law.

Before the passing of the Provisional Collection of Taxes Act a tax could not be levied on a resolution of the House of Commons which caused the problem as to be seen in Bowles v. The Governor & Co of the Bank of England. 2305 Below.

In this case, a holder of Government Stock upon which a half-yearly dividend was payable on the 1st July, 1912, claimed that the sum which the Bank of England sought to deduct therefrom in respect of Income Tax on the authority of a

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2304 In this point, one notes, "This statutory effect is for a limited period only however. The House of Commons must give a Bill, which includes provisions that will achieve what the resolutions provide, a second reading within 30 sitting days or the resolutions lose their effect. If the provisions in the Bill that support the resolutions are rejected during the passage of the Bill, or an Act is passed giving effect to the provisions, or Parliament is dissolved or prorogued, the statutory effect of the resolutions is lost." (CCH Tax Handbook, op.cit.(note12), p.508)
Resolution of the House of Commons in Committee of Ways and Means, should be paid over to him. This was on the ground that no Act imposing the Income Tax for the year 1912-13 had been passed on the date of the payment of such dividend. It was held that the Bank were not entitled to deduct any sum in respect of Income Tax from such dividend before the tax was imposed by Act of Parliament.\textsuperscript{2306}

The Provisional Collection of Taxes Act applies to income tax, corporation tax, petroleum revenue tax, stamp duty reserve tax, value added tax, insurance premium tax, and duties of customs and excise.

In my view, by primary statutory force before the passing of the Finance Act, the taxation measures in the Budget can help the government to deal with the current economic and social purposes which previous measures could not solve. Besides, the temporary statutory effect may remedy the legal problem arising from the delay of the passing of the Finance Act. In \textit{Bowles v. The Governor \& Co. of the Bank of England} as cited above, if the temporary statutory effect of House of Commons resolutions had occurred at that time, the Bank would have been entitled to deduct any sum in respect of income tax from the dividend before the Act of Parliament imposing income tax had been passed.

\textsuperscript{2305} [1913] 1.Ch.57
\textsuperscript{2306} Reports of Tax Cases, Volume 6, 1911-1915, pp.136-137
Appendix IV to Chapter Five

As discussed in Chapter 5, I agree that changes to existing tax statutes should be made when such changes are clearly inevitable and necessary. This would reduce the quantity of legislation. The question then arises when changes are clearly inevitable and necessary. In my view, the government’s tax proposals to be enacted as the tax provisions of annual Finance Acts (in order to make changes to existing tax statutes) should be produced only:

(a) to strengthen the tax base to respond to every new commercial development, for example, a change to tax law for imposing income tax on returns on newly issued financial instruments, or “taxation of manufactured dividends”\(^{2307}\);

(b) to prevent tax avoidance, for example, the introduction of rules on settlements to prevent tax avoidance by inter-spousal transfer;

(c) to avoid injustice, for example, the abolition of the married couple’s allowance (which will be discussed more below);

(d) to promote the fairness of taxation, for example, the proposal for the abolition of tax expenditures that can be replaced by direct subsidy/grant (which will be discussed more below);

(e) to promote the equity of income redistribution, for example, the proposal for the use of the two tax-rate schedule system to reduce tax burdens on low-income earners (as discussed in Chapter 2), and the proposal for an increase in personal tax allowances to cover private consumption expenditure per capita and to be in line with price inflation (as discussed in Chapter 3);

(f) to promote economic efficiency of taxation, for example, the proposal for the use of the two tax-rate schedule system to reduce administrative and compliance costs (as discussed in Chapter 2);

(g) to promote certainty in the application of tax law, for example, the detailed rules for relocation expenses\(^{2308}\), and

\[^{2307}\text{Howe, op.cit.(note1108), p.89}\]
\[^{2308}\text{Ibid.p.89}\]
(h) to respond to changes in the general legal framework; for example, Lord Howe notes that "developments in company law have led to provisions for open-ended investment companies, and the demerger provisions"2309, and section 103, Finance Act 2005, as to the tax treatment of civil partnerships in the same as that of married couples, is introduced to respond to the Civil Partnership Act 2004 (as discussed in Chapter 4).

This limitation of tax proposals means the limitation of using tax policy to achieve social and economic purposes. A limited tax policy or a less complex policy would make tax legislation simpler. The TLRC supports the view that "simpler policy would allow simpler legislation."2310 However, as quoted earlier, "the simpler the rules are, the less fair they are."2311 As discussed in section 2, if we used a less complex policy under the idea of optimal taxation (as proposed in Chapters 2, 3, and 4), this could make tax legislation less complex and still bring about fairness at the same time. The following examples will clarify this point.

For example, Thuronyi notes that "the use of tax laws [through tax expenditures] to accomplish subsidy purposes has obviously led to complexity."2312 As noted above, the necessities of making changes to existing tax statutes do not include the use of tax law to accomplish subsidy purposes. I proposed in Chapter 3 to use the optimal tax base by abolishing certain tax expenditures which include the abolition of tax expenditures that can be replaced by direct subsidy/grant. The purpose for this abolition is to promote equity, namely assistance to certain groups of people or activities can be made more efficiently and equitably through direct subsidies/grants than through tax expenditures since direct subsidies/grants can help the poorest whereas tax expenditures cannot2313, e.g. assistance for home ownership and education. Therefore, the abolition of this kind of tax expenditures could not only make tax legislation less complex but also still promote fairness.

2309 ibid.p.89
2310 TLRC, op.cit.(note128), p.1
2311 Morse and Williams, op.cit.(note15), p.8
2312 Thuronyi, op.cit.(note10), p.18
2313 Willis and Hardwick note that "in order to benefit from a tax relief [or tax expenditures], it is necessary to have a tax liability to be reduced whereas a direct grant may be available irrespective of income." (Willis and Hardwick op.cit.(note560), p.12) The poorest have income below the tax threshold and have no income tax liability. Therefore, tax expenditures cannot help the poorest.
Another example is the abolition of the married couple’s allowance (“the MCA”). Parry-Wingfield noted in 1999 that this abolition would be simplify Self-assessment, for example, “three pages of legislation dealing with the sharing of the MCA between husband and wife [would] be chopped.”2314 The MCA was abolished in April 2000 (except for that for pensioner couples).2315 I proposed in Chapter 4 that the optimal tax treatment of married couple under individual taxation supports the abolition of the MCA. This is because the MCA could only be claimed by married couples, not by single people. Consequently, the tax liabilities of married couples were further reduced below those of single people. Such reductions increased inequity. Therefore, the abolition of the MCA could not only make tax legislation simpler but also still promote fairness.2316

2315 The availability of the MCA for pensioner couples is reasonable because elderly couples have less taxable capacities.
2316 More details in this issue were discussed in sub-section 5.3.2.2, Chapter 4.
Appendix V to Chapter Five

Tax Law Rewrite Project: Background, Operation, Works, Problems and enactment of Rewrite Bills

Broke notes that "in 1995 Tim Smith, a backbench member of the Finance Bill Committee, promoted an amendment to the Bill that was enacted as section 160 of the Finance Act 1995."2317 This section required the Inland Revenue to report to Parliament on tax simplification.2318 The Inland Revenue presented to Parliament a report - The Path to Tax Simplification - together with a background paper in December 1995.2319 The report as referred to in Lord Howe’s article says,

"...that the language of existing tax law can be simplified; that the benefits should substantially out weight the costs; and that a rewrite of most the existing code could be accomplished over a period of about five years."2320

The report has led to a project to rewrite some 6,000 pages of UK direct tax legislation over a period of five years.2321 The aim of this Project is to rewrite "all (or most) of the United Kingdom’s existing primary direct tax legislation in order to make it clearer and easier to use, without changing or making less certain its general effect."2322 Lord Howe notes that the Project has "no intention of changing the underlying tax policy [;] [such] policy changes will continue to be dealt with in the normal way through the Budget and Finance Bill process."2323

The Project has set out six critical success factors which must all be fully achieved if the project is to succeed as follows.

- "The rewritten legislation must be accepted by all the main users as clearer and easier to apply and as preserving the effect of the present legislation apart from minor agreed changes in policy [;]
- Parliament must be able to continue to scrutinise and enact the rewritten legislation in accordance with clearly defined and appropriate parliamentary procedures to an agreed timetable [;]

2317 Broke, op.cit.(note1114), p.24
2318 Wallworth, op.cit.(note1120), p.411
2319 Tiley, op.cit.(note6), p.50; and HMRC, op.cit.(note1259), p.1
2320 Howe, op.cit.(note1108), pp.87-88, and p.97
2321 Ibid.p.97
2323 Howe, op.cit.(note1108), p.99
• [the] main users, both inside and outside the Inland Revenue, must be kept fully informed about progress throughout the life of the project and, when appropriate, properly consulted in good time for their views to influence the rewrite work [;]

• [the] operational implications of the rewrite work for the Inland Revenue must be identified and properly addressed [;]

• [the] lessons learned from the experience of successfully rewriting the legislation should be developed, in close consultation with the users, into new best practice for producing tax legislation in the future [;] and

• [the] project – including all the people in the Project Team – must be managed effectively and efficiently and all the project’s objectives must be achieved within the agreed programme and budget.”

The Project consists of Inland Revenue members, tax professional from the private sector, and parliamentary drafters. The Project is divided into “four multidisciplinary rewrite teams [who] work on particular areas of tax legislation”, “a drafting team headed by a senior Parliamentary Counsel on loan from the Office of Parliamentary Counsel”, and “a small policy and project support team.”

There are two committees establish to control the Project, i.e. a Steering Committee and a standing Consultative Committee. The duty of a Steering Committee (which is chaired by the RT Hon the Lord Howe of Aberavon CH, QC) is to provide “strategic guidance to the project”, and to ensure that “the project is meeting its objectives of clarity and user friendliness, and is taking full account of private sector concerns.” The TLRC notes that “the steering group is needed to ensure that the rewrite project commands respect from all interested parties [;] without it, there could be a perception that the project was one-sided.” The duty of a standing Consultative Committee (which is chaired by Peter Michael CBE) is to

2325 HMRC, op.cit.(note1259), p.1
2326 ibid.p.1
2327 ibid.p.1
2328 ibid.p.1
2329 TLRC, op.cit.(note1215), p.30
ensure “continuous consultation on the rewritten law with all the main private sector interests.”

The Capital Allowances Act 2001 (CA2001) was the first rewritten legislation produced by the project. The Income Tax (Earnings and Pensions) Act 2003 (ITEPA 2003), PAYE Regulations 2003, and the Income Tax (Trading and Other Income) Act 2005 (ITTOIA 2005) are the subsequent works by the Project so far.

The Capital Allowances Act 2001 was enacted in March 2001. This Act rewrites “all of the capital allowances legislation,” or “consolidates all capital allowance measures for [both income and corporation taxes].” ITEPA 2003 was enacted in March 2003. This Act restates, “with minor changes, certain enactments relating to income tax on employment income, pension income and social security income; and for connected purposes.” ITTOIA 2005 was enacted March 2005. This Act restates, “with minor changes, certain enactments relating to income tax on trading income, property income, savings and investment income and certain other income; and for connected purposes.” PAYE Regulations 2003 codifies “the rules for deducting tax under ITEP at source.”

There will be Bill 4 to complete the rewrite project’ work on income tax and Bill 5 (Corporation Tax Bill).

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2330 HMRC, op.cit.(note1259), p.2
2332 Morse and Williams, op.cit.(note15), p.54
2334 Preamble, Income Tax (Trading and Other Income) Act 2005
2335 Morse and Williams, op.cit.(note15), p.54
2336 The Draft Bill contains rewritten legislation for the following:
• basic provisions about the charge to income tax, income tax rates, the calculation of income tax liability, and personal reliefs;
• various specific reliefs, including relief for losses, the enterprise investment scheme, venture capital trusts, community investment relief, interest paid, gift aid and gifts of assets to charities;
• specific rules about trusts, deduction of tax at source, manufactured payments and repos, tax avoidance; and
• general income tax definitions. (HMRC, Consultation Papers, Exposure Drafts and Response Documents http://www.hmrc.gov.uk/rewrite/exposure/menu.htm, as of 25/05/2006, 2.)
2337 ibid.p.1
To assure the accuracy of the rewritten legislation, the Project’s work is subject to full consultation at every stage of the process.

- “As [the Project] [develops] draft clauses, [the Project] [involves] the relevant specialists in Revenue Policy (and, where appropriate, interested parties outside the Department) and produce ‘work in progress’ papers for consideration by the Consultative Committee and Steering Committee.”

- “In the light of comments from both Committees and further work within [the Project], [the Project] [refines] the draft clauses (with further Revenue Policy specialist involvement) and work up Exposure Drafts for public consultation.”

- “These contain a general commentary and a more detailed clause-by-clause commentary.”

- “Near final drafts are considered by both Committees before publication.”

- “[The Project] [publishes] these Exposure Drafts for written comments.”

- “Usually [the Project] [publishes] a response document, summarising the comments received from formal consultation and [the project’s response] to these points.”

- “This provides feedback to all those who have commented.”

- “Finally [the Project] [publishes] draft Bills – with a commentary – for a final round of formal consultation before introduction in Parliament for enactment.”

Morse and Williams notes that the Project has faced a number of problems including:

- “the need to change the structure and format of long Acts of Parliament, and to some extent of all Acts.”

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2338 HMRC, op.cit.(note1259), p.2
2339 ibid.p.2
2340 ibid.p.2
2341 ibid.p.2
2342 ibid.p.2
2343 ibid.p.2
2344 ibid.p.2
2345 ibid.p.2
2346 Morse and Williams, op.cit.(note15), p.52
"inconsistently used techniques such as deeming, the use of Schedules rather than sections, naming and numbering of parts, chapters and sections, and internal signposting"²³⁴⁷.

- "the use of duplication of language, the need to state principles emerging from case law rather than the rules from which those principles were derived, and the consistent use of languages and definition throughout a long Act."²³⁴⁸

Broke finds that the Project cannot go quicker for several reasons. The two principal reasons are as follows:

"Firstly resources – the money is limited and more importantly the people are precious and scarce. Secondly there are limitations on the management of a programme as massive as this. When first conceived it was estimated that the projects would take no more than five years. It is now clear that it stretches well beyond that into the future and nobody is now prepared to venture even a guess at the ultimate time scale."²³⁴⁹

In the meantime, Morse and Williams note that "if progress of the rewrite has been slow, it is because [the Project] has been dealing with the problems of the enactment process and the conventions of the British drafting style as well as with the complexities of the tax law itself."²³⁵⁰

One of the problems of the enactment process is that Parliament is unable to enact Rewrite Bills under the ordinary procedure for public Bills.²³⁵¹ This is because:

(a) "the sheer volume of direct tax legislation makes it impracticable for rewritten clauses to be included in a Finance Bill"²³⁵², and

(b) "Rewrite Bills are not consolidation Bills."²³⁵³

As regards (a), the TLRC notes that if Rewrite Bills were enacted under the ordinary Bill procedure, it would require "a prohibitively large time commitment

²³⁴⁷ ibid.p.52
²³⁴⁸ ibid.p.52
²³⁵⁰ Morse and Williams, op.cit.(note15), p.52
²³⁵¹ HMRC, op.cit.(note1259), p.3
²³⁵² ibid.p.3
²³⁵³ ibid.p.3
from the normal legislative machinery and from MPs themselves.” In addition, it notes that “it would be quite inappropriate to treat the rewritten legislation in the same way as ordinary Public Bills, including Finance Bills, since this could, and almost certainly would, reopen debate on tax policy issues which had already been enacted and established.”

As regards (b), Rewrite Bills would be consolidation Bills if they must be certified not to change the law. However, “the substantial changes in language which [the Project] is designed to achieve will mean that the risk of minor, inadvertent changes in the effect of the legislation cannot be entirely excluded []; moreover, it is likely to introduce some deliberate, though limited, modifications in some areas.” Therefore, Rewrite Bills are not consolidation Bills.

Lord Howe recommends that when it is not possible for Parliament to handle Rewrite Bills under the ordinary Public Bill procedure, “a new, tailor-made procedure would be required.” It has been found that “Parliament has adopted a new streamlined procedure, which allow it to scrutinise the rewritten legislation properly but without opening up debate on the full range of fiscal policy matters.” This is because policy matters have already been approved and the Project rewrites the existing tax legislation without changing its underlying policy.

According to the report of the House of Commons Procedure Committee – Legislative Procedure for Tax Simplification Bills,

- “Rewrite Bills should be introduced in the House of Commons and then referred, on Second Reading, to a Joint Committee of both Houses”, and
- “the Joint Committee should have a Commons majority and be chaired by a member of that House.”

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2355 ibid.p.7
2356 ibid.p.7
2357 Howe, op.cit.(note1108), p.103
2358 HMRC, op.cit.(note1259), p.3
2359 TLRC, op.cit.(note2354), p.8
2360 HMRC, op.cit.(note1259), p.3
2361 ibid.p.3
This approach is consistent with the proposal of the TLRC. As it notes, "our fundamental proposal is therefore that each tax simplification Bill should be referred, after Second Reading in the House of Commons, to a joint committee of both Houses."  The TLRC also notes that "the appropriate Parliamentary procedure for scrutiny of the tax simplification Bills will involve a variation in the Committee Stage procedure [...] apart from this important variation, we do not, however, think that any wider change in the ordinary Bill route through Parliament is likely to be required."  

The House of Commons accepted the approach in the report of the House of Commons Procedure Committee and reflected it in Standing Order No 60, on 20 March 1997. The House of Lords Procedure Committee endorsed this approach in November 2000.  Subsequently, "both Houses agreed to proposals that:

- "the Joint Committee should consist of seven members of the House of Commons and six members of the House of Lords" and
- "the Committee would elect its own chairman from among its members, determine when and how often it would meet and decide how it would tackle the task of scrutinising the rewritten legislation." 

The Project's Rewrite Bills have been managed successfully in the above way.

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2362 TLRC, op.cit. (note2354), p.3
2363 The TLRC notes about the ordinary Bill route as follows:
   "Public Bills travel a familiar route through Parliament from First Reading and Second Reading to Committee Stage, Report Stage and Third Reading in one House followed by the same procedure in the other Houses (and back again for further consideration in the first Houses of any amendments made in the second House, and so on) and eventually Royal Assent.” (ibid.p.18)
2364 ibid.p.18
2365 HMRC, op.cit. (note1259), p.3
2366 ibid.p.3
2367 ibid.p.3
2368 ibid.p.3
2369 ibid.p.3
Appendix VI to Chapter Five

The Tax Law Rewrite Project has improved UK direct tax legislation. One evidence to support this argument is comments on the draft Bill of the ITEPA 2003 received during its parliamentary stages.

The Institute of Chartered Accountants in England and Wales says, "Another major step forward in improving the intelligibility of UK tax legislation in areas of the law that affect the majority of taxpayers."2370

The Chartered Institute of Taxation says, "The Bill is a most significant achievement."2371

Confederation of British Industry says, "It is a very great improvement on the existing legislation."2372

The Share Schemes Lawyers Group says, "The new text is clearer, more logically ordered and more user friendly while preserving the effect of the present legislation."2373

Broke also says, "These huge, blue part-works that are coming out of the Rewrite teams, on capital allowances, savings income, employment income and so forth are the product of rigorous analysis and a huge amount of work. And there is no doubt that the final result is an immense improvement in terms of comprehension."2374

In addition, Parry-Wingfield says, "I believe we should continue to back the project despite the long timescale, because the product is so worth having"2375;

"The rewrite is cruelly exposing the labyrinthine nature of our tax laws, because it is not easy to rewrite something that is inconsistent, irrational or fundamentally complex"2376; and

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2370 HMRC, op.cit.(note1264), p.1
2371 ibid.p.1
2372 ibid.pp.1-2
2373 ibid.p.2
2374 Broke, op.cit.(note1114), p.24
2375 Parry-Wingfield, op.cit.(note1275), p.20
2376 ibid.p.20
“I see the rewrite as a means to promote simpler legislation, not an obstacle to it.”

Broke refers to Parry-Wingfield and restates that the rewritten Capital Allowances Bill has “clarity of presentation” and uses “signposting techniques to guide the user round the whole.”

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2377 ibid.p.20
2378 Broke, op.cit.(note2349), p.24
Appendix VII to Chapter Five

The comparison between certain provisions of the current legislation and those of the rewritten legislation below will show that the rewritten legislation is clearer and easier to read and understand in terms of the language, the length of section, the style of drafting, and the structure of legislation.

<table>
<thead>
<tr>
<th>TA 1988 (the current legislation)</th>
<th>ITTOIA 2005 (the rewritten legislation)</th>
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</thead>
<tbody>
<tr>
<td><strong>Section 660 A Income arising under settlement where settlor retains an interest</strong></td>
<td><strong>Section 620 Meaning of “settlement” and “settlor”</strong></td>
</tr>
<tr>
<td>(1) Income arising under settlement during the life of the settlor shall be treated for all purposes of the Income Tax Acts as the income of the settlor and not as the income of any other person unless the income arises from property in which the settlor has no interest.</td>
<td>(1) In this Chapter- “settlement” includes any disposition, trust, covenant, agreement, arrangement or transfer of assets (except that it does not include a charitable loan arrangement), and “settlor”, in relation to a settlement, means any person by whom the settlement was made.</td>
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<td>(2) ..........................</td>
<td>(2)..................</td>
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<td>(3) ..........................</td>
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<td>(4) ..........................</td>
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<td>(5) ..........................</td>
<td>(5)..................</td>
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<tr>
<td>(6) The reference in subsection (1) above to a settlement does not include an outright gift by one spouse to the other of property from which income arises, unless-</td>
<td><strong>Section 624 Income where settlor retains an interest</strong></td>
</tr>
<tr>
<td>(a) the gift does not carry a right to the whole of that income, or</td>
<td>(1) Income which arises under a settlement is treated for income tax purposes as the income of the settlor and of the settlor alone if it arises</td>
</tr>
<tr>
<td>(b) the property given is wholly or substantially a right to income.</td>
<td>(a) during the life of the settlor, and</td>
</tr>
<tr>
<td>For this purpose a gift is not an outright gift if it is subject to conditions, or if the property given or any derived property is or will or may become, in any</td>
<td>(b) from property in which the settlor has an interest.</td>
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circumstances whatsoever, payable to or applicable for the benefit of the donor.

Section 660B Payments to unmarried minor children of settlor

(1) Income arising under a settlement which does not fall to be treated as income of the settlor under section 660A but which during the life of the settlor is paid to or for the benefit of an unmarried minor child of the settlor in any year of assessment shall be treated for all the purposes of the Income Tax Acts as the income of the settlor for that year and not as the income of any other person.

(2) The rule in section 624(1) does not apply in respect of an outright gift-

(a) of property from which income arises,

(b) made by one spouse to the other, and

(c) meeting conditions A and B.

(2) Condition A is that the gift carries a right to the whole of the income.

(3) Condition B is that the property is not wholly or substantially a right to income.

(4) A gift is not an outright gift for the purposes of this section if-

(a) it is subject to conditions, or

(b) there are any circumstances in which the property, or any related property-

(i) is payable to the giver,

(ii) is applicable for the benefit of the giver, or

(iii) will, or may become, so payable or applicable.

(5) “Related property” has the same meaning in this section as in section 625.

Section 629 Income paid to unmarried minor children of settlor

(1) Income which arises under a settlement is treated for income tax purposes as the income of the settlor and of the settlor alone for a tax year if, in that year and during the life of the settlor, it -

(a) is paid to, or for the benefit of, and unmarried minor child of the settlor, or

(b) would otherwise be treated (apart from
“settlement” includes any disposition, trust, covenant, agreement, arrangement or transfer of assets, and “settlor”, in relation to a settlement, means any person by whom the settlement was made. (2) ………… (3) ………… (4) ………… (5) ………… (6) ………… (7) In this section and sections 631 and 632- (a) “child” includes a stepchild, (b) “minor” means a person under the age of 18 years, and “minor child” is to be read accordingly; and (c) references to payments include payments in money’s worth.

From the above, there is no logical order in the TA 1988; namely the meaning of “settlement” and “settlor” (section 660G) is provided after the detailed rules (sections 660 A and 660 B). There is a better logical order in the ITTOIA 2005; namely the meaning of “settlement” and “settlor” (section 620) is provided before the detailed rules (sections 624, 626, and 629). There are the use of long sentences and a number of words in a single sentence in the TA 1988, but there are the use of shorter sentences and the splitting of sentence into several clauses in the ITTOIA 2005; i.e.

- section 660 A (1), the TA 1988 in comparison with section 624 (1), the ITTOIA 2005,
- section 660 A (6), the TA 1988 in comparison with section 626 (1), (2), (3), (4), the ITTOIA 2005, and
- section 660 B (1), the TA 1988 in comparison with section 629 (1), the ITTOIA 2005.

There is the use of a so-called legal word which is actually meaningless: “whatsoever” in section 660 A (6), the TA 1988. There is no such word in section 626 (4), the ITTOIA 2005. There is the use of pain English in the ITTOIA 2005, e.g.
section 629 (7) (b) uses the simpler word that has a well understood meaning: “read” in place of the word: “construed” in section 660 B (6) (b). In addition, the ITTOIA 2005 avoids multiple negatives, e.g.

- section 624 (1), the ITTOIA 2005 in comparison with section 660 A (1), the TA1988,
- section 626 (1), (2), (3), the ITTOIA 2005 in comparison with section 660 A (6), TA1988, and
- section 629 (1), the ITTOIA 2005 in comparison with section 660 B (1), the TA1988.
Appendix VIII to Chapter Five

The provisions of European Convention on Human Rights incorporated in Human Rights Act 1998 which are likely to be most relating to the tax issue are provided below.

Article 1 of the First Protocol – the right to property

"Every natural or legal person is entitled to the peaceful enjoyment of his possessions. No one shall be deprived of his possessions except in the public interest and subject to the conditions provided for by law and by the general principles of international law.

The preceding provision shall not, however, in any way impair the right of a State to enforce such laws as it deems necessary to control the use of property in accordance with the general interest or to secure the payment of taxes or other contributions or penalties."

Article 6 of the Convention – the right to a fair hearing

"In the determination of his civil rights and obligations or of any criminal charge against him, everyone is entitled to a fair and public hearing within a reasonable time by an independent and impartial tribunal established by law. Judgment shall be pronounced publicly, but the press and public may be excluded from all or part of the trial in the interest of morals, public order or national security in a democratic society, where the interests of juveniles or the protection of the private life of the parties so require, or to the extent strictly necessary in the opinion of the court in special circumstances where publicity would prejudice the interests of justice."

Article 8 of the Convention – the right to respect for private and family life

"1 Everyone has the right to respect for his private and family life, his home and his correspondence.

2 There shall be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others."
Article 14 of the Convention - discrimination

"The enjoyment of the rights and freedoms set forth in this Convention shall be secured without discrimination on any ground such as sex, race, colour, language, religion, political or other opinion, national or social origin, association with a national minority, property, birth or other status."
Appendix IX to Chapter Five

In *R v Dimsey*[^2379] the appellant argued that a construction of section 739 (2), TA 1988 was inconsistent with the right under Article 1 of the First Protocol if section 739 (2) were construed “in a manner that gave the Revenue an option of taxing either the resident transferor or the non-resident or non-domiciled transferee or possibly both the transferee and the transferor.”[^2380]

The House of Lord held that the construction of section 739 (2) did not breach the Convention on the grounds that the Revenue’s option “was well within the margin of appreciation allowed to a state under the convention in respect of tax legislation.”[^2381] In other words, the Convention allows the state “a wide discretion in tax matters.”[^2382] Wallworth refers to the decision of the EComHR (*ABCD v United Kingdom* Application No8531/79) that “retrospective legislation against tax avoidance schemes can be justified.”[^2383]

In *R (on the application of Morgan Grenfell) v Special Commissioner*[^2384], the Court of Appeal accepted that Article 8 of the Convention “protects legal professional privilege.”[^2385] Under Article 8 (1), everyone has the right to respect for private life and correspondence. However, the Court considered that “the Taxes Management Act 1970, s 20 notices requesting legally privileged material were valid”[^2386]; and “the scheme of the legislation implicitly overrode legal professional privilege.”[^2387] In other words, the right under Article 8 (1) “might in a proper case be abrogated”[^2388] because it is subject to interference by a public authority that is necessary for the economic well-being of the country under Article 8 (2).[^2389] The Court did not declare that this legislation breached a Convention right. When this case came before the House of Lords, Lord Hoffmann referred to the ECtHR that “legal professional privilege is a fundamental human right which can be invaded

[^2379]: [2001]STC1520
[^2381]: [2001]STC1520at1522
[^2382]: Wallworth, op.cit.(note1333), p.285
[^2383]: ibid.p.285
[^2384]: [2001]STC497
[^2385]: ibid.(note2380), p.9
[^2386]: ibid.p.9
[^2387]: ibid.p.9
[^2388]: [2001]STC497at498
only in exceptional circumstances." And he thought that the public interest in collecting revenue would not be sufficient justification. 2391

2389 Woolf, op.cit.(note2380), p.9
2390 [2002]STC786at796
2391 [2002]STC786at796; Tiley, op.cit.(note6), p.47
Appendix X to Chapter Five

The disclosure rules require a promoter to notify the Revenue of information about notifiable proposals and notifiable arrangements. Where two or more persons are promoters in relation to the same proposal or arrangements, notification by one promoter discharges the obligations of the others.²³⁹² If a promoter has discharged his obligations in relation to a proposal or arrangements, he need not notify proposals or arrangements which are substantially the same as those already notified (whether they relate to the same parties or not).²³⁹³

A person is a promoter in relation to a notifiable proposal if, in the course of a relevant business, he is to any extent responsible for the design of the proposed arrangements or he makes the notifiable proposal available for implementation by other persons.²³⁹⁴

A person is a promoter in relation to notifiable arrangements if, by virtue of his having made the notifiable proposal available for implementation by other persons, he is a promoter in relation to a notifiable proposal which is implemented by those arrangements or if, in the course of a relevant business, he is to any extent responsible for the design of the arrangements or the organization or management of the arrangements.²³⁹⁵

A relevant business is any trade, profession or business which involves the provision to other persons of taxation services or is carried on by a bank or a securities house.²³⁹⁶ In practice, promoters are accountants, tax advisers, solicitors, and barristers if they provide taxation services.²³⁹⁷

SI 2004/1865 (as amended by SI 2004/2613) set out the circumstances in which a person will not be treated as a promoter for the purposes of the disclosure rules. There are two general exceptions from being a promoter as follows.

²³⁹³ Section 307, FA 2004; ibid.p.65
²³⁹⁴ Section 307, FA 2004
²³⁹⁵ Section 307, FA 2004
²³⁹⁶ Section 307, FA 2004; Smailes and Flint, op.cit.(note2392), p.65
²³⁹⁷ Chamberlain, et al., op.cit.(note78), p.999
(a) Certain group companies: companies which provide services in relation to notifiable proposals or notifiable arrangements only to other members of the same group of companies.\(^{2398}\)

(b) Employees of promoters: employees of promoters or of a person who is to enter into a notifiable proposal or who enters into notifiable arrangements.\(^{2399}\)

\(^{2398}\) Section 307, FA 2004; Reg 2, SI 2004/1865; Simon's Direct Tax Service:Binder 2, op.cit.(note79), p.4909

\(^{2399}\) Section 307, FA 2004; Reg 3, SI 2004/1865; ibid.p4909
Appendix XI to Chapter Five

As noted in Chapter Five, withholding at source under current Thai tax law covers many types of income at various rates. Where the recipient of income is liable to personal income tax, the payer of income has to withhold tax at source at a rate according to the type of income. The following are the rules, conditions and rates of withholding at source on certain types of income paid to a person liable to personal income tax.

(a) For income from employment (e.g. wages and salaries) and income from a post, office of employment or service rendered (e.g. commissions), the payer who is a person, a partnership, a company, an association, a non-juristic body of persons, or governmental agency must withhold tax by:

(i) multiplying the amount of income paid by such number of times of payment that the result will give the total amount which would be payable under the assumption that payments are made throughout the whole year;

(ii) after the subtraction of deductible expenses and allowances, calculating the tax on the amount at the rates in the tax-rate schedule (0-37%); and

(iii) dividing the amount of tax as calculated in (ii) by the number of times of payment, resulting in the amount of withholding tax.²⁴⁰⁰

Where the recipient of income is a non-Thai resident and receives income from his/her employment in ‘Regional Operating Headquaters’²⁴⁰¹, a 15% tax is withheld at source.²⁴⁰²

Where the recipient of income from a post, office of employment or service rendered is a non-Thai resident, a 15% tax is withheld at source.²⁴⁰³

(b) For income from goodwill, copyright or any other rights (e.g. royalty), the payer who is a person, a partnership, a company, an association, a non-juristic body of persons, or governmental agency must withhold tax at the rates in the tax-

²⁴⁰⁰ Section 50 (1) and Section 53, RCT
²⁴⁰¹ ‘Regional Operating Headquaters’ means a company incorporated under Thai law in order to provide managerial, technical or supporting services to its associated enterprise or its domestic or foreign branches. (Section 3, Royal Decree No.405 (B.E. 2545))
²⁴⁰² Section 4, Royal Decree No.405 (B.E. 2545)
²⁴⁰³ Paragraph 4, Section 50 (1), RCT
rate schedule (5-37%). Where the recipient of income is a non-Thai resident, a 15% tax is withheld at source.

(c) **For bonus paid to a shareholder or partner of a juristic company or partnership**, the payer who is a juristic company or partnership must withhold tax at the rates in the tax-rate schedule (5-37%). Where the recipient of income is a non-Thai resident, a 15% tax is withheld at source.

(d) **For gains on the sale of shares issued by a company which is not listed on the Stock Exchange of Thailand**, the payer who is a person, a partnership, a company, an association or a non-juristic body of persons must withhold tax at the rates in the tax-rate schedule (5-37%). Where the recipient of income is a non-Thai resident, a 15% tax is withheld at source.

(e) **For interest income**, the payer who is a partnership, a company, an association, or governmental agency must withhold tax at the rate of 15%.

(f) **For dividend income**, the payer who is a partnership or a company must withhold tax at the rate of 10%.

(g) **For income from letting out property**, the payer who is a juristic company or partnership, or any other juristic person must withhold tax at the rate of 5%. Where the payer is a governmental agency, a 1% tax is withheld at source. Where the recipient of income is a non-Thai resident, a 15% tax is withheld at source.

(h) **For rent of a vessel**, the payer who is a juristic company or partnership, any other juristic person, or governmental agency must withhold tax at the rate of

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2404 Section 50 (2) and Section 53, RCT
2405 Section 50 (2) (a), RCT
2406 Section 50 (2), RCT
2407 Section 50 (2) (a), RCT
2408 Section 50 (2), RCT
2409 Section 50 (2) (a), RCT
2410 Section 50 (2) (b), RCT
2411 Section 50 (2) (e), RCT
2412 Clause 2 (7) (a), Ministerial Regulation No.144 (B.E.2522); and Clause 6 (1), Departmental Regulation No.Taw.Paw. 4/2528
2413 Section 50 (4), RCT
2414 Section 50 (3), RCT
1%. Where the recipient of income is a non-Thai resident, a 15% tax is withheld at source.

(i) For income from liberal professions (e.g. a lawyer’s or a doctor’s fee), the payer who is a juristic company or partnership or any other juristic person must withhold tax at the rate of 3%. Where the payer is a governmental agency, a 1% tax is withheld at source. Where the recipient of income is a non-Thai resident, a 15% tax is withheld at source.

(j) For income from a contract of work whereby the contractor provides essential materials besides tools, the payer who is a juristic company or partnership or any other juristic person must withhold tax at the rate of 3%. Where the payer is a governmental agencies, a 1% tax is withheld at source.

(k) For remuneration for hire of work, the payer who is a juristic company or partnership or any other juristic person must withhold tax at the rate of 3%. In the case where the payer is governmental agencies, a 1% tax is withheld at source.

(l) For prizes won in contests, competitions, lucky drawings or other similar activities, the payer who is a person, a juristic company or partnership, any other juristic person, an ordinary partnership or a non-juristic body of persons must withhold tax at the rate of 5%. Where the payer is a governmental agency, the payer must withhold tax at the rates in the tax-rate schedule (5-37%).

(m) For remuneration to a public entertainer, the payer who is a person, a juristic company or partnership, any other juristic person, an ordinary partnership or

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2415 Clause 6 (4), Departmental Regulation No.Taw.Paw. 4/2528; and Section 50 (4), RCT
2416 Section 50 (3), RCT
2417 Clause 2 (8) (a), Ministerial Regulation No.144 (B.E.2522); and Clause 7 (1), Departmental Regulation No.Taw.Paw. 4/2528
2418 Section 50 (4), RCT
2419 Section 50 (3), RCT
2420 Clause 2 (9), Ministerial Regulation No.144 (B.E.2522); and Clause 8 (1), Departmental Regulation No.Taw.Paw. 4/2528
2421 Section 50 (4), RCT
2422 Clause 2 (9), Ministerial Regulation No.144 (B.E.2522); and Clause 8 (1), Departmental Regulation No.Taw.Paw. 4/2528
2423 Section 50 (4), RCT
2424 Clause 2 (2), Ministerial Regulation No.144 (B.E.2522); and Clause 9 (1), Departmental Regulation No.Taw.Paw. 4/2528
2425 Section 50 (4), RCT

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a non-juridic body of persons must withhold tax at the rate of 5%. \(^{2426}\) Where the payer is a governmental agency, a 1% tax is withheld at source.\(^ {2427}\)

Where a public entertainer is a non-Thai resident, the payer who is a person, a juridic company or partnership, any other juridic person, an ordinary partnership or a non-juridic body of persons must withhold tax at the rates in the tax-rate schedule (5-37%)\(^ {2428}\), except where a non-Thai public entertainer receives an income from acting in a movie or a television programme made in Thailand by a company established under foreign law and granted permission to do so in Thailand by a relevant governmental agency, a 10% tax is withheld at source.\(^ {2429}\) Where the income of a non-Thai public entertainer is paid by a governmental agency, a 1% tax is withheld at source.\(^ {2430}\)

\( (n) \) For advertising fees, the payer who is a juridic company or partnership or any other juridic person must withhold tax at the rate of 2%. \(^ {2431}\) Where the payer is a governmental agency, a 1% tax is withheld at source.\(^ {2432}\)

\( (o) \) For purchase price of aquatic animals, the payer who is a person, a juridic company or partnership, any other juridic person, an ordinary partnership, a non-juridic body of persons, or a governmental agency must withhold tax at the rate of 1%. \(^ {2433}\)

\( (p) \) For purchase price of goods and income from rendering services of warehouse, undertaking the supervision, transportation, hotel and insurance against loss, the payer who is a governmental agency must withhold tax at the rate of 1%. \(^ {2434}\)
(q) For income from the business of providing services\textsuperscript{2435}, the payer who is a juristic company or partnership or any other juristic person must withhold tax at the rate of 3\%\textsuperscript{2436}.

(r) For prizes, discounts or any other benefits for the purpose of promoting sales\textsuperscript{2437}, the payer who is a juristic company or partnership or any other juristic person must withhold tax at the rate of 3\%\textsuperscript{2438}.

(s) For transport charges (excluding fares for public transport), the payer who is a juristic company or partnership or any other juristic person must withhold tax at the rate of 1\%\textsuperscript{2439}.

(t) For income from the sale of an immovable property acquired by bequest or gift, the payer who is a person, a partnership, a company, an association, a non-juristic body of persons, or governmental agency must withhold tax by:

(i) subtracting the amount of income paid with a 50\% standard deduction as expenses, resulting in the net income;

(ii) dividing the net income by the number of years of holding the property, and computing tax on the quotient at the rates in the tax-rate schedule (5-37\%); and

(iii) multiplying the amount of tax as calculated in (ii) by the number of years of holding the property, resulting in the amount of withholding tax\textsuperscript{2440}.

\textsuperscript{2435}“Providing services” means carrying out any action where a benefit that is of value may be sought therefrom, and which is not a sale of goods. (Clause 1, Departmental Regulation No.Taw.Paw. 104/2544)

\textsuperscript{2436} Clause 2 (13), Ministerial Regulation No.144 (B.E.2522), as amended by Clause 1, Ministerial Regulation No. 234 (B.E.2544); and

Clause 12/1, Departmental Regulation No.Taw.Paw. 4/2528, as amended by Clause 1, Departmental Regulation No.Taw.Paw. 104/2544

\textsuperscript{2437}Withholding at source does not include the case where the recipient of prizes, discounts, or benefits is the purchaser of goods or services who is an end user and has no intention to resell such goods or services. (Clause 3, Departmental Regulation No.Taw.Paw. 101/2544)

\textsuperscript{2438} Clause 2 (14), Ministerial Regulation No.144 (B.E.2522), as amended by Clause 3, Ministerial Regulation No. 229 (B.E.2544); and

Clause 12/2, Departmental Regulation No.Taw.Paw. 4/2528, as amended by Clause 3, Departmental Regulation No.Taw.Paw. 101/2544

\textsuperscript{2439} Clause 2 (17), Ministerial Regulation No.144 (B.E.2522), as amended by Clause 2, Ministerial Regulation No. 234 (B.E.2544); and

Clause 12/4, Departmental Regulation No.Taw.Paw. 4/2528, as amended by Clause 2, Departmental Regulation No.Taw.Paw. 104/2544

\textsuperscript{2440} Section 50 (5) (a) and Section 53, RCT
(u) For income from the sale of an immovable property acquired with or without a view to trading or profits, the payer who is a person, a partnership, a company, an association, a non-juristic body of persons, or governmental agency must withhold tax by:

(i) subtracting the amount of income paid with a standard deduction as prescribed in Royal Decree\textsuperscript{2441}, resulting in the net income;

(ii) dividing the net income by the number of years of holding the property, and computing tax on the quotient at the rates in the tax-rate schedule (5-37%); and

(iii) multiplying the amount of tax as calculated in (ii) by the number of years of holding the property, resulting in the amount of withholding tax.\textsuperscript{2442}

\textsuperscript{2441} According to Royal Decree No. 165, the standard deduction shall be made as expenses as follows:

<table>
<thead>
<tr>
<th>Number of years of holding property</th>
<th>Percentage of income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>92</td>
</tr>
<tr>
<td>2 years</td>
<td>84</td>
</tr>
<tr>
<td>3 years</td>
<td>77</td>
</tr>
<tr>
<td>4 years</td>
<td>71</td>
</tr>
<tr>
<td>5 years</td>
<td>64</td>
</tr>
<tr>
<td>6 years</td>
<td>60</td>
</tr>
<tr>
<td>7 years</td>
<td>55</td>
</tr>
<tr>
<td>8 years or more</td>
<td>50</td>
</tr>
</tbody>
</table>

\textsuperscript{2442} Section 50 (5) (b) and Section 53, RCT
The above rules can be summarized in the following table.

<table>
<thead>
<tr>
<th>Types of income</th>
<th>Withholding tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from employment</td>
<td></td>
</tr>
<tr>
<td>(i) Thai resident</td>
<td>0-37</td>
</tr>
<tr>
<td>(ii) Non-Thai resident</td>
<td>15</td>
</tr>
<tr>
<td>Income from a post, office of employment or service rendered</td>
<td></td>
</tr>
<tr>
<td>(i) Thai resident</td>
<td>5-37</td>
</tr>
<tr>
<td>(ii) Non-Thai resident</td>
<td>15</td>
</tr>
<tr>
<td>Royalties</td>
<td></td>
</tr>
<tr>
<td>(i) Thai resident</td>
<td>5-37</td>
</tr>
<tr>
<td>(ii) Non-Thai resident</td>
<td>15</td>
</tr>
<tr>
<td>Bonus paid to a shareholder or partner of a juristic company or partnership</td>
<td></td>
</tr>
<tr>
<td>(i) Thai resident</td>
<td>5-37</td>
</tr>
<tr>
<td>(ii) Non-Thai resident</td>
<td>15</td>
</tr>
<tr>
<td>Gains on the sale of shares not listed on the Stock Exchange of Thailand</td>
<td></td>
</tr>
<tr>
<td>(i) Thai resident</td>
<td>5-37</td>
</tr>
<tr>
<td>(ii) Non-Thai resident</td>
<td>15</td>
</tr>
<tr>
<td>Interest income</td>
<td>15</td>
</tr>
<tr>
<td>Dividend income</td>
<td>10</td>
</tr>
<tr>
<td>Income from letting out property</td>
<td></td>
</tr>
<tr>
<td>(i) Thai resident</td>
<td>5 or 1</td>
</tr>
<tr>
<td>(ii) Non-Thai resident</td>
<td>15</td>
</tr>
<tr>
<td>Rent of a vessel</td>
<td></td>
</tr>
<tr>
<td>(i) Thai resident</td>
<td>1</td>
</tr>
<tr>
<td>(ii) Non-Thai resident</td>
<td>15</td>
</tr>
<tr>
<td>Income from liberal professions</td>
<td></td>
</tr>
<tr>
<td>(i) Thai resident</td>
<td>3 or 1</td>
</tr>
<tr>
<td>(ii) Non-Thai resident</td>
<td>15</td>
</tr>
<tr>
<td>Income from a contract of work whereby</td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>Value</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>the contractor provides essential materials apart from tools</td>
<td>3 or 1</td>
</tr>
<tr>
<td>Remuneration for hire of work</td>
<td>3 or 1</td>
</tr>
<tr>
<td>Prizes in contests, competitions and lucky draws</td>
<td>5 or 5-37</td>
</tr>
<tr>
<td>Public entertainer remuneration</td>
<td></td>
</tr>
<tr>
<td>Thai resident</td>
<td>5 or 1</td>
</tr>
<tr>
<td>Non-Thai resident</td>
<td>5-37, 1, or 10</td>
</tr>
<tr>
<td>Advertising fees</td>
<td>2 or 1</td>
</tr>
<tr>
<td>Purchase price of aquatic animals</td>
<td>1</td>
</tr>
<tr>
<td>Purchase price of goods and income from rendering services, paid by government agencies</td>
<td>1</td>
</tr>
<tr>
<td>Income from providing services paid by juristic persons</td>
<td>3</td>
</tr>
<tr>
<td>Prizes, discounts or benefits from promoting sales</td>
<td>3</td>
</tr>
<tr>
<td>Transport charges</td>
<td>1</td>
</tr>
<tr>
<td>Income from the sale of immovable property</td>
<td>5-37</td>
</tr>
</tbody>
</table>
Appendix XII to Chapter Five

As noted in Chapter Five, PAYE applies to all earnings from employment (e.g. wages, salaries, bonus, commission, fees, pension, pay during sickness or other absence from work, and holiday pay).\textsuperscript{2443} PAYE also applies to transactions as follows:

(i) trade debts,
(ii) some payments to sub-contractors in the construction industry,
(iii) payments to outworkers, and
(iv) payments in the form of 'readily convertible assets.'

Regarding (i), a scheme involving trade debt used to be outside the scope of PAYE. Under this scheme, an employer assigned the debt of his/her customer to an employee, who received cash upon a settlement of the debt (with no PAYE deduction). PAYE has applied to this scheme since 2 July 1997.\textsuperscript{2444}

Regarding (ii), Homer and Burrows note that “tax must be charged under PAYE from 6 April 1998 where construction industry workers are supplied by agencies.”\textsuperscript{2445} This means that payments made by contractors to sub-contractors or to construction workers supplied by agencies is subject to the deduction of PAYE.

Regarding (iii), Foreman notes, “Some industries have outworkers who work on their own premises. However, depending upon the circumstances, outworkers may be regarded as employees and not as self-employed individuals. This means that payments made by the person using the services of outworkers may be subject to PAYE and employers national insurance contributions.”\textsuperscript{2446}

Regarding (iv), PAYE is also imposed on payments in the form of assets which are readily convertible into cash, e.g. “shares, gold bars, coffee beans or other similar commodities”\textsuperscript{2447}, including “non-cash vouchers and credit tokens which may be exchanged for such assets (or money, in the case of credit tokens.)”\textsuperscript{2448}

\textsuperscript{2443} Melville, op.cit.(note541), p.104
\textsuperscript{2444} Martin Burr, Taxation Recent Developments (London: Old Bailey Press, 1999), 3.
\textsuperscript{2446} Foreman, op.cit.(note1572), p.xx
\textsuperscript{2447} Melville, op.cit.(note541), p.104
\textsuperscript{2448} Whitehouse and Vaines, op.cit.(note695), p.105
Appendix XIII to Chapter Five

As noted in Chapter 5, withholding reduces the opportunity and incentive for tax evasion. Current withholding at source under Thai and UK laws covers increasing types of income and payment, which makes it more difficult for individuals to evade paying tax.

Lent and Hirao did a survey in Thailand in 1970, noting that the “practice of underreporting of business profits and professional income is one of the most serious defects of the Thai [PIT].”\(^{2449}\) They also found that “income tax evasion is prevalent among lawyers, physicians, accountants, architects, public entertainers, and others.”\(^{2450}\) Withholding at source now applies to income from liberal professions, public entertainer remuneration, advertising fees, and income from other businesses, e.g. income from hire of work, and provision of services. This expansion helps minimize tax evasion (by failing to report or underreporting income) and improve revenue collection.

The extended scope of withholding also provides less opportunity for tax avoidance. For example, the UK PAYE system now applies to a scheme involving trade debt. This scheme involves the assignment of trade debt by an employer to an employee. If the scheme were not subject to PAYE, this would reduce the employee’s tax burden. Furthermore, PAYE that applies to payments for outworkers and construction industry worker reduces the incentive for avoiding PAYE. Moreover, PAYE that applies to payments in the form of ‘readily convertible assets’ prevents employers from avoiding PAYE by paying employees in assets.\(^{2451}\)

\(^{2449}\) Lent and Hirao, op.cit.(note185), p.26
\(^{2450}\) ibid.p.27
\(^{2451}\) Sinclair, op.cit.(note1627), p. 130
Appendix XIV to Chapter Five

The taxpayer may elect not to include the following income in an end-of-year tax return, provided that such income is already taxed at source.

(a) a Thai resident’s dividend, share of profits or gains derived from a juristic company or partnership\textsuperscript{2452},

(b) the difference between the redemption value and the selling price of bills or debt instruments\textsuperscript{2453},

(c) gains obtained from transfer of bonds, debentures, bills or debt instruments\textsuperscript{2454},

(d) income obtained from sale of immovable property acquired by bequest, gift, or acquired not with a view to trading or profits\textsuperscript{2455},

(e) income derived from the employer in a single payment by reason of termination of employment\textsuperscript{2456},

(f) a non-Thai actor’s income derived from his/her acting in a movie or on television made in Thailand\textsuperscript{2457},

(g) a non-Thai resident’s income derived from his/her employment in ‘Regional Operating Headquarters’.\textsuperscript{2458}

The taxpayer’s election to have certain incomes taxed at source without including them in an end-of-year tax return generates tax loopholes, inequity in taxation, and revenue loss.

\textsuperscript{2452} Section 48 (3), RCT
\textsuperscript{2453} Section 48 (3), RCT
\textsuperscript{2454} Section 48 (3), RCT
\textsuperscript{2455} Section 48 (4), RCT
\textsuperscript{2456} Section 48 (5), RCT
\textsuperscript{2457} Section 3, Royal Decree No.409 (B.E. 2545)
\textsuperscript{2458} Sections 4 and 5, Royal Decree No.405 (B.E. 2545)
Appendix XV to Chapter Five

Penalties in the case of non-compliance with the ‘withholding’ rules

Under Thai law, ‘the payers’ will be penalised if they (a) fail to make deduction and remittance or (b) make inadequate deduction and remittance. In such cases, the payer’s penalty is joint liability with the taxpayer to settle the tax omitted from deduction and remittance or the deficiency, as the case may be. Where ‘the payer’ has withheld tax at source, the tax liability of the recipient of the taxable income will be discharged to the extent of the amount of tax withheld, and the liability to pay such amount shall rest solely with the payer.

Under current UK law, “interest is charged on any PAYE tax and employers’ and employees’ NICs not remitted to the Collector of Taxes by 14 days after the end of the tax year (i.e. by 19 April 2003 for 2002-03).” In addition, employers who fail to submit end-of-year PAYE returns by 19 May following the end of the tax year will be given penalties. The maximum penalty is “£100 pm per unit of 50 employees.”

Penalties in the case of non-compliance with the ‘Self-assessment’ rules

Under UK law, taxpayers must preserve adequate records for a specified period, i.e. for 5 years in the case of trading records, from the 31 January filing date, and for 12 months in the case of other records, from that date. If taxpayers fail to keep proper records, they will be penalised. Whitehouse et al. note that “the introduction of a penalty for failing to keep proper records can prove onerous, but the maximum £3,000 will only be charged in the most serious cases.”

If a person does not file his/her end-of-year tax return by the 31 January filing date, he/she will be liable for an automatic fixed penalty of £100 or the tax due if less. If the tax return has still not been sent in by six months later, the taxpayer

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2459 Section 54, RCT
2460 Section 54, RCT
2461 Section 54, RCT
2462 Foreman and Mowles, op.cit.(note574), p.423
2463 ibid.p.423
2464 ibid.p.423
2465 Simon Direct Tax Service: Binder 6, op.cit.(note149), p.1805
2466 Whitehouse et al., op.cit.(note549), p.17
2467 Section 93, TMA 1970
Foreman and Mowles, op.cit.(note574), p.42; and Inland Revenue, SABK8 – Self Assessment – Your guide (http://www.inlandrevenue.gov.uk/pdfs/sabk8.htm, as of 10/04/03), 10.
has to pay another £100 fixed penalty.\textsuperscript{2468} If he continues not to file the return, “the Revenue may apply to the Commissioners for further penalties to be imposed of up to £60 per day that the return remains outstanding.”\textsuperscript{2469}

If the taxpayer does not pay tax by the 31 January payment date, he/she will have to pay interest.\textsuperscript{2470} Besides this, a 5% surcharge will be imposed on any tax that is not paid by 28 February after the end of the tax year; and a further 5% surcharge will be imposed on any outstanding tax at the following 31 July.\textsuperscript{2471}

In addition, if a taxpayer files an incorrect return, he/she will be liable to “a penalty equal to the difference between the tax charged on the income or gain returned and the true income or gain.”\textsuperscript{2472}

\textbf{Under Thai law}, if a tax return contains false or inadequate information and the assessment officer has issued a summons as noted earlier, the taxpayer is liable to a penalty equal to the amount of tax additionally payable.\textsuperscript{2473} If a person fails to file a tax return and the assessment officer has issued a summons as noted earlier, the taxpayer is liable to a penalty equal to twice the amount of tax payable.\textsuperscript{2474} Furthermore, any person who fails to pay or remit tax within a specified period will be liable to a surcharge of 1.5% per month or fraction thereof of the tax payable or remittable exclusive of penalties.\textsuperscript{2475}

\textsuperscript{2468} Section 93, TMA; Foreman and Mowles, op.cit.(\textsuperscript{note574}), p.42; and Inland Revenue, op.cit.(\textsuperscript{note2467}), p.10
\textsuperscript{2469} Foreman and Mowles, op.cit.(\textsuperscript{note574}), p.42
\textsuperscript{2470} Foreman and Mowles, op.cit.(\textsuperscript{note574}), p.42; and Inland Revenue, op.cit.(\textsuperscript{note2467}), p.10
\textsuperscript{2471} Foreman and Mowles, op.cit., p.43
\textsuperscript{2472} ibid.p.53
\textsuperscript{2473} Section 22, RCT
\textsuperscript{2474} Section 26, RCT
\textsuperscript{2475} Section 27, RCT
Appendix XVI to Chapter Five

A Thai person who has the following amount of assessable income obtained during the tax year is required to file an end-of-year tax return and pay tax (if any):

- for a person having no spouse and deriving income from any source, if the assessable income of the tax year exceeds 30,000 baht;
- for a person having no spouse and deriving exclusively income from employment, if the assessable income of the tax year exceeds 50,000 baht;
- for a person having a spouse, if the combined assessable income of both spouses for the tax year exceeds 60,000 baht; or
- for a person having a spouse and deriving exclusively income from employment, if the combined assessable income of both spouses of the tax year exceeds 100,000 baht. 2476

Meanwhile, according to the Revenue, the following British people are still required to complete and file tax end-of-year returns:

- self employed people including business partners,
- company directors,
- other people with more complicated tax affairs including people who pay the higher rate tax,
- pensioners with more complex tax affairs,
- people who receive rent or other income from land and property in the UK,
- trustees and personal representatives,
- trustees of approved self-administered pension schemes, and
- non-resident company landlords. 2477

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2476 Section 56, RCT
In cases where a British taxpayer wants to work out his/her own tax liability, he/she has to make the following tax calculations:

(a) the calculation of total income, i.e. income chargeable under the ITEPA 2003 or the ITTOIA 2005 from which certain charges on income are deducted,

(b) the calculation of total tax-free income, i.e. tax allowances and expenses which the taxpayer can claim,

(c) the calculation of total taxable income by deducting (b) from (a), and

(d) the calculation of tax liability by computing the balance under (c) at the starting, basic and higher rates.\textsuperscript{2478}

\textsuperscript{2478} James and Nobes, op.cit.(note5), p.200; CCH Tax Handbook, op.cit.(note12), p.521; and Barr et al., op.cit.(note577), p.3
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