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Chapter 14

PERSONAL INCOME TAXES IN THAILAND THE UNITED STATES

Public Finance, 10th Edition
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for Public Economics 2952331

Outline: Chapter 14 PERSONAL INCOME TAXES IN THE UNITED STATES

1. The Tax Base: Basic Rules for Calculating Taxable Income and Why Much of Income Is Untaxed
2. Tax Preferences
3. Tax Preferences under the U.S. Income Tax System
- 4 Issues in Income Tax Policy
5. How Progressive Are Federal Income Taxes? Effective Average and Marginal Tax Rates

Tax Reform

1. The Tax Base: Basic Rules for Calculating Taxable Income and Why Much of Income Is Untaxed

- Income tax in the U.S. is continually being reformed in hopes of simplifying it.
- In 2001, Congress enacted the **Economic Growth and Tax Relief Reconciliation Act (EGTRRA)**:
 - Reduction in MTRs for all brackets
 - Reduction in the “marriage penalty”
 - Increase in child credits, tuition credits, contribution to tax-deferred retirement accounts.
- Jobs and Growth Tax Relief Reconciliation Act of 2003 accelerated many EGTRRA provisions.
- EGTRRA changes will expire at the end of 2010 unless it is renewed by Congress.

Obama Plan

1. The Tax Base: Basic Rules for Calculating Taxable Income and Why Much of Income Is Untaxed

- Cut income tax for households with less than \$250,000 annual income
- Increases in marginal tax rates on the upper 2 percent of income earners
- Tax cuts for senior citizens, those without health insurance, first-time homebuyers, and families with college age children

Calculating Taxable Income (USA)

1. The Tax Base: Basic Rules for Calculating Taxable Income and Why Much of Income Is Untaxed

- **Taxable income** – portion of income received by individuals that is subject to personal income tax
- **Adjusted gross income (AGI)** – gross income minus any allowable adjustments
- **Gross income** – all income received during the year from taxable sources
- **Personal exemption** – certain sum of money a taxpayer is allowed to deduct from AGI that varies with number of dependents claimed
- **Standard deduction** – fixed dollar amount that is adjusted for inflation each year and varies with filing status of the taxpayer
- **Itemized deductions** – expenses deducted as alternative to the standard deduction from AGI in figuring taxable income

Calculating Taxable Income (Th)

1. The Tax Base: Basic Rules for Calculating Taxable Income and Why Much of Income Is Untaxed

- **TAXABLE INCOME = Assessable Income - deductions – allowances**
- Income chargeable to the PIT is called “assessable income”. The term covers income both in cash and in kind.
 - Therefore, any benefits provided by an employer or other persons, such as a rent-free house or the amount of tax paid by the employer on behalf of the employee, is also treated as assessable income of the employee for the purpose of PIT.

Calculating Taxable Income (USA)

Assessable income (Thailand)

TAXABLE INCOME = Assessable Income - deductions - allowances

1. The Tax Base: Basic Rules for Calculating Taxable Income and Why Much of Income Is Untaxed

TABLE 14.1

Calculating Taxable Income under the U.S. Personal Income Tax System (Based on Rules Prevailing in 2009)

Sources of Income Subject to Tax:

Wages and Salaries
Interest Income Received
Dividends
Rental Income
Profits from Noncorporate Business Activity
Taxable Pension Benefits
Realized Capital Gains (Special Tax Rates Apply in Many Cases)
Unemployment Compensation and a Portion of Other Government Payments to Individuals
Alimony Received
Miscellaneous Income (e.g., Awards and Prizes)

Total Equals: Gross Income

Less Adjustments to Gross Income:

Moving Expenses Relating to Start of Work
Contributions to Special Retirement Plans and Medical Savings Accounts
Penalties for Early Withdrawal of Savings
Alimony Paid
A Portion of Self-Employment Tax and Health Insurance
Miscellaneous Costs for Employees and Businesses
Miscellaneous Education Expenses

Equals: Adjusted Gross Income

Less Exemptions and Deductions (Either Standard or Itemized)

Equals: Taxable Income

Assessable income is divided into 8 categories as follows:

1. income from personal services rendered to employers;
2. income by virtue of jobs, positions or services rendered;
3. income from goodwill, copyright, franchise, other rights, annuity
4. income in the nature of dividends, interest on deposits with banks in Thailand, shares of profits or other benefits
5. income from letting of property and from breaches of contracts, installment sales or hire-purchase contracts;
6. income from liberal professions;
7. income from construction and other contracts of work;
8. income from business, commerce, agriculture, industry, transport or any other activity not specified earlier. (**noncorporate sector**)



Assessable income is divided into 8 categories as follows :

1. The Tax Base: Basic Rules for Calculating Taxable Income and Why Much of Income Is Untaxed

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Deductions allowed for the calculation of PIT

$$\text{TAXABLE INCOME} = \text{Assessable Income} - \text{deductions} - \text{allowances}$$

1. The Tax Base: Basic Rules for Calculating Taxable Income and Why Much of Income Is Untaxed

Type of Income	Deduction
Income from employment 1. income from personal services rendered to employers; 2. income by virtue of jobs, <u>positions</u> or services rendered;	40% but not exceeding 60,000 baht
3. Income received from copyright	40% but not exceeding 60,000 baht
4. income in the nature of <u>dividends</u> , <u>interest</u> on deposits with banks in Thailand, <u>shares of profits</u> or other benefits	No deduction
5. Income from letting out of property on hire 1) Building and wharves 2) Agricultural land 3) All other types of land 4) Vehicles 5) Any other type of property	30% 20% 15% 30 10%
6. Income from liberal professions	30% except for the medical profession where 60% is allowed
7. Income derived from contract of work whereby the contractor provides essential materials besides tools	actual expense or 70%
8. Income derived from business, commerce, agriculture, industry, transport, or any other activities not specified in 1. to 8.	actual expense or 65% - 85%

Allowances (Exemptions) allowed for the calculation of PIT

$$\text{TAXABLE INCOME} = \text{Assessable Income} - \text{deductions} - \text{allowances}$$

1. The Tax Base: Basic Rules for Calculating Taxable Income and Why Much of Income Is Untaxed

Types of Allowances	Amount
Personal allowance Single taxpayer Undivided estate Non-juristic partnership or body of persons	30,000 baht for the taxpayer 30,000 baht for the taxpayer's spouse 30,000 baht for each partner but not exceeding 60,000 baht in total
Spouse allowance	30,000 baht
Child allowance (child under 25 years of age and studying at educational institution, or a minor, or an adjusted incompetent or quasi-incompetent person)	15,000 baht each (limited to three children)
Education (additional allowance for child studying in educational institution in Thailand)	2,000 baht each child
Parents allowance	30,000 baht for each of taxpayer's and spouse's parents if such parent is above 60 years old and earns less than 30,000 baht
Life insurance premium paid by taxpayer or spouse	Amount actually paid but not exceeding 100,000 baht each
Approved provident fund contributions paid by taxpayer or spouse	Amount actually paid at the rate not more than 15% of wage, but not exceeding 500,000 baht
Long term equity fund	Amount actually paid at the rate not more than 15% of wage, but not exceeding 500,000 baht
Home mortgage interest	Amount actually paid but not exceeding 100,000 baht
Social insurance contributions paid by taxpayer or spouse	Amount actually paid each
Charitable contributions	Amount actually donated but not exceeding 10% of the income after standard deductions and the above allowances

Tax Rate Structure

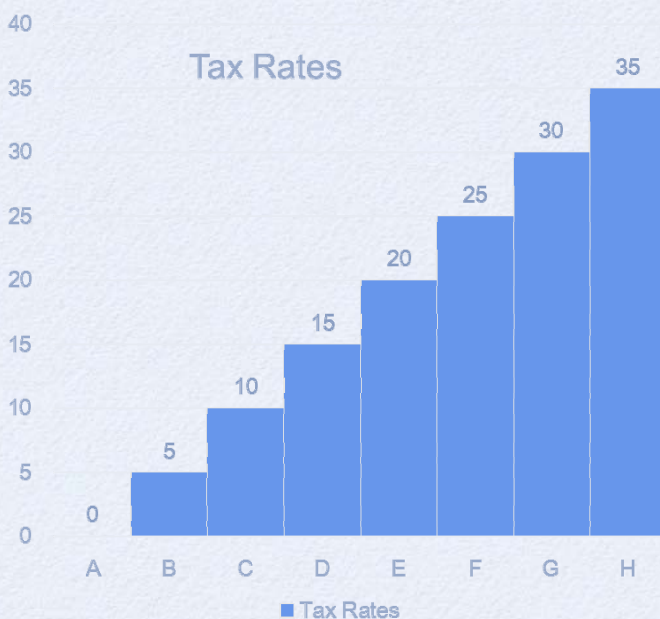
1. The Tax Base: Basic Rules for Calculating Taxable Income and Why Much of Income Is Untaxed

- Different tax rate schedules apply to different taxpayers, depending on filing status:
 - Single, married filing jointly, married filing separately
- **Tax bracket** is a range of income subject to a given marginal tax rate (MTR).
- As of 2014 (Thailand), the tax schedule contained **8** tax brackets.
 - (USA) As of 2009, the tax schedule contained **six** tax brackets.

Tax rates of the Personal Income Tax

TAXABLE INCOME = Assessable Income - deductions – allowances

1. The Tax Base: Basic Rules for Calculating Taxable Income and Why Much of Income Is Untaxed



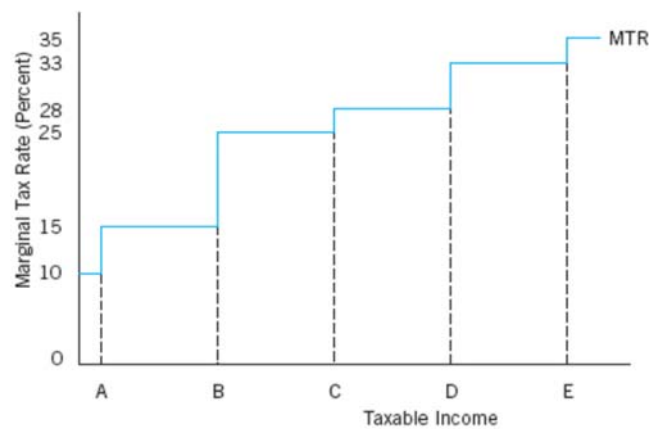
Taxable Income (baht)	Tax Rate (%)
0–150,000	A 0
more than 150,000 but less than 300,000	B 5
more than 300,000 but less than 500,000	C 10
more than 500,000 but less than 750,000	D 15
more than 750,000 but less than 1,000,000	E 20
more than 1,000,000 but less than 2,000,000	F 25
more than 2,000,000 but less than 4,000,000	G 30
Over 4,000,000	H 35

Tax Rate Structure (USA)

1. The Tax Base: Basic Rules for Calculating Taxable Income and Why Much of Income Is Untaxed

FIGURE 14.1

Statutory MTRs for the U.S. Personal Income Tax, 2009*



The U.S. personal income tax has a six-bracket progressive rate structure.
 A = \$8,350 for single taxpayers, \$16,700 for married taxpayers filing jointly.
 B = \$33,950 for single taxpayers, \$67,900 for married taxpayers filing jointly.
 C = \$82,250 for single taxpayers, \$137,050 for married taxpayers filing jointly.
 D = \$171,550 for single taxpayers, \$208,850 for married taxpayers filing jointly.
 E = \$372,950 for single taxpayers, \$372,950 for married taxpayers filing jointly.

*Intervals on the Horizontal axis are not drawn to scale.

1. The Tax Base: Basic Rules for Calculating Taxable Income and Why Much of Income Is Untaxed

1. A taxpayer faces the following MTRs for labor income:

AVERAGE DAILY LABOR EARNINGS (DOLLARS)	MTR (PERCENT)
0-20	0
20-40	20
40-80	30
80 and above	40

- ① The taxpayer can earn \$10 per hour. In the absence of any taxes, he would work an average of eight hours a day. Show how the tax affects his income leisure budget line and analyze the possible effects on his equilibrium allocation of time to work and leisure, assuming that leisure is a normal good.

- 1.
- ① The more work on average per day, the higher the marginal tax rate is. The budget line therefore becomes flatter, and more leisure is traded for work. The line drawn by students should have four distinct linear segments, each flatter than the previous segment as leisure is given up.
- ② Assuming that leisure is a normal good, it is likely that work effort will be reduced provided that substitution effects outweigh income effects. However, the effects are quite complex because net wage rates are also a function of the amount of leisure given up.

Tax Preferences

$$\text{TAXABLE INCOME} = \text{Assessable Income} - \text{deductions} - \text{allowances}$$

2. Tax Preferences

- Exclusions, exemptions, and deductions from the tax base
- Justified on various grounds:
 1. Administrative difficulty in taxing certain activities
 2. Improving equity
 3. Encouraging private expenditures that generate external benefits

Allowances (Exemptions) allowed for the calculation of PIT

3. Tax Preferences under the U.S. Income Tax System

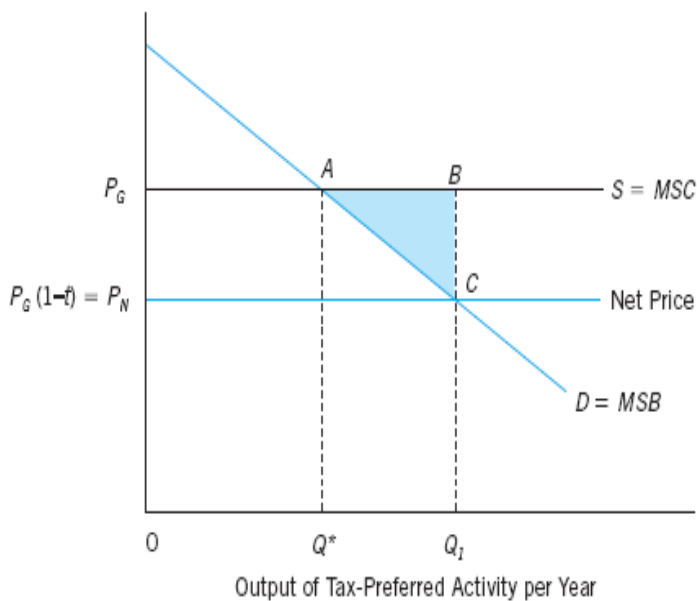
Types of Allowances	Amount
Personal allowance	
Single taxpayer	30,000 baht for the taxpayer
Undivided estate	30,000 baht for the taxpayer's spouse
Non-juristic partnership or body of persons	30,000 baht for each partner but not exceeding 60,000 baht in total
Spouse allowance	30,000 baht
Child allowance (child under 25 years of age and studying at educational institution, or a minor, or an adjusted incompetent or quasi-incompetent person)	15,000 baht each (limited to three children)
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Parents allowance	30,000 baht for each of taxpayer's and spouse's parents if such parent is above 60 years old and earns less than 30,000 baht
Life insurance premium paid by taxpayer or spouse	Amount actually paid but not exceeding 100,000 baht each
Approved provident fund contributions paid by taxpayer or spouse	Amount actually paid at the rate not more than 15% of wage, but not exceeding 500,000 baht
Long term equity fund	Amount actually paid at the rate not more than 15% of wage, but not exceeding 500,000 baht
Home mortgage interest	Amount actually paid but not exceeding 100,000 baht
Social insurance contributions paid by taxpayer or spouse	Amount actually paid each
Charitable contributions	Amount actually donated but not exceeding 10% of the income after standard deductions and the above allowances

Excess Burden of Tax Preferences

2. Tax Preferences

E 14.2

Tax Preference and Efficiency



- Tax preferences reduce the net prices of engaging in tax-preferred activities. The efficient output corresponds to the point at which $MSC=MSB$.
- The tax preference reduces the net price of purchasing or supplying tax-deductible or other tax-preferred activities.
- As a result, annual output increases from Q^* to Q_1 . The loss in efficiency is represented by the shaded area ABC.

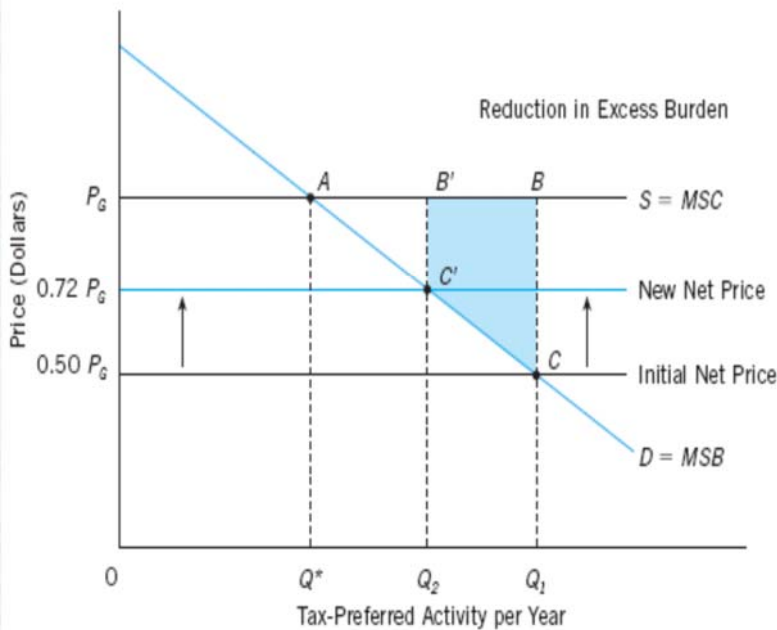
Excess Burden of Tax Preferences

2. Tax Preferences

- Tax preferences can distort relative prices of items and activities in ways that lead to efficiency losses in markets.
 - *Marginal tax benefit* of an activity is extra tax reduction resulting when an individual engages in it.
- Unless marginal **tax benefits** are balanced by marginal **external benefits**, tax preferences decrease efficiency by encouraging more than the efficient amount of an activity to be undertaken.

Excess Burden of Tax Preferences

FIGURE 14.3 Decrease in Excess Burden of Tax Preferences



- A decrease in the MTR results in a decrease in the excess burden from tax preferences.
- The area $B'BCC$ represents the gain in net social benefits as a result of the reduction in the MTR.

Exclusions from Income

1. *Income-in-kind* and imputed housing rental income: Much income-in-kind is difficult to measure and therefore typically excluded from taxable income

Free Housing: Any benefits provided by an employer or other persons, such as a rent-free house or the amount of tax paid by the employer on behalf of the employee, is also treated as assessable income of the employee for the purpose of PIT.

2. Fringe benefits: Though employer contributions to programs such as pension plans constitute compensation of workers, they are excluded from current gross income

Types of Allowances	Amount
Life insurance premium paid by taxpayer or spouse	Amount actually paid but not exceeding 100,000 baht each
Approved provident fund contributions paid by taxpayer or spouse	Amount actually paid at the rate not more than 15% of wage, but not exceeding 500,000 baht
Long term equity fund	Amount actually paid at the rate not more than 15% of wage, but not exceeding 500,000 baht

3. Transfers: Most government transfers, as in the form of government income support or social insurance payments, are excluded from gross income

Types of Allowances	Amount
Social insurance contributions paid by taxpayer or spouse	Amount actually paid each

Exclusions from Income

3. Tax Preferences under the U.S. Income Tax System

4. *Capital gains and dividends*: Only realized capital gains, or those sold for cash or exchanged for another asset, are included in taxable income

Tax Credit for dividends

Any taxpayer who domiciles in Thailand and receives dividends from a juristic company or partnership incorporated in Thailand is entitled to a tax credit of $t_c/(1-t_c)$ of the amount of dividends received. In computing assessable income, taxpayer shall gross up his dividends by the amount of the tax credit received. The amount of tax credit is creditable against his tax liability.

Itemized Deductions from AGI (Assessable Income)

3. Tax Preferences under the U.S. Income Tax System

1. Interest payments: Those such as interest on mortgages of first and second homes and interest incurred to make investments are deductible (**Home mortgage interest**)

Types of Allowances	Amount
Home mortgage interest	Amount actually paid but not exceeding 100,000 baht

2. Charitable contributions: Constitute a subsidy to private transfers to charitable and other nonprofit organizations, including educational institutions

Types of Allowances	Amount
Charitable contributions	Amount actually donated but not exceeding 10% of the income after standard deductions and the above allowances

3. Miscellaneous deductions: Business travel expenses, for example, can be deducted under some circumstances

Deductions Versus Credits

3. Tax Preferences under the U.S. Income Tax System

- Value of deductions varies with taxpayer's marginal tax bracket in terms of reduction in taxes that they entail
- Credits are based on a certain percentage of expense incurred; this percentage is fixed for all taxpayers regardless of income and MTRs.

Tax Credit for dividends

Any taxpayer who domiciles in Thailand and receives dividends from a juristic company or partnership incorporated in Thailand is entitled to a tax credit of $t_c/(1-t_c)$ of the amount of dividends received. In computing assessable income, taxpayer shall gross up his dividends by the amount of the tax credit received. The amount of tax credit is creditable against his tax liability.

Tax Expenditures

3. Tax Preferences under the U.S. Income Tax System

- Losses in tax revenues attributable to tax preferences
- Provide useful starting point for evaluating tax preferences in terms of loss in tax revenues
 - Elimination of tax preferences broadens tax base, allows lower rates of taxation without reducing revenues collected
 - Elimination of certain tax preferences would cause people to decrease tax-preferred activities and increase activities that still receive preferential treatment for tax purposes
 - Therefore, gains in revenue to the Treasury due to elimination of tax preferences are overestimated

Tax Expenditures

3. Tax Preferences under the U.S. Income Tax System

TABLE 14.2

Major Tax Expenditures Resulting from the U.S. Income Tax, Fiscal Year 2009

PROVISION	REVENUE LOSS, 2009 (MILLIONS OF DOLLARS)
Exclusion of Employer Contributions for Medical Insurance Premiums and Care	168,460
Deductibility of Mortgage Interest Owner-Occupied Homes	100,810
Net Exclusion of Pension Contributions and Earnings: Employer Plans	45,670
Net Exclusion of Pension Contributions and Earnings: 401(k) Plans	51,000
Capital Gains (Reduced Tax Rates)	55,940
Deductibility of State and Local Taxes Other Than on Owner-Occupied Homes	33,200
Deductibility of Charitable Contributions Other Than Education and Health	46,980
Step-up Basis of Capital Gains at Death	36,700
Exclusion of Interest on Public Purpose State and Local Bonds	25,900
Exclusion of Interest on Life Insurance Savings	23,500
Child Credit	29,950
Capital Gains Exclusion on Home Sales	34,710
Net Exclusion of Pension Contributions and Earnings Individual Retirement Accounts	11,700
Exclusion of Social Security Benefits for Retired Workers	18,640
Deductibility of State and Local Property Tax on Owner-Occupied Homes	16,640

Source: Office of Management and Budget.

Alternative Minimum Tax (AMT)

3. Tax Preferences under the U.S. Income Tax System

- Conceived as a way to ensure that a few wealthy taxpayers paid a reasonable amount of tax on their gross income
- In the case where income categories (2) - (8) are earned more than 60,000 Baht per annum, taxpayer has to calculate the amount of tax by multiplying 0.5% to the assessable income
- Compare with the amount of tax calculated by progressive tax rates. Taxpayer is liable to pay tax at the amount whichever is greater.
 1. income from personal services rendered to employers;
 2. income by virtue of jobs, positions or services rendered;
 3. income from goodwill, copyright, franchise, other rights, annuity
 4. income in the nature of dividends, interest on deposits with banks in Thailand, shares of profits or other benefits
 5. income from letting of property and from breaches of contracts, installment sales or hire-purchase contracts;
 6. income from liberal professions;
 7. income from construction and other contracts of work;
 8. income from business, commerce, agriculture, industry, transport or any other activity not specified earlier.

Alternative Minimum Tax (AMT)

3. Tax Preferences under the U.S. Income Tax System

- USA
- Has increased tax liability of many middle- and upper-middle-income taxpayers in recent years
 - Brackets under AMT not indexed for inflation
 - Set up as a shadow tax rate structure applied to taxpayers with significant amounts of certain tax preferences
 - Unless current rules change, number of taxpayers subject to AMT expected to climb from 3.5 million in 2005 to 36 million by 2010

The Flat Tax

4 Issues in Income Tax Policy

- Has been proposed to simplify taxes and solve many of the nation's problems, including low growth
 - Would be a general tax on a comprehensive income tax base with no exemptions or deductions
 - Would reduce excess burden of tax by eliminating distortions that arise from tax preferences
- Most proposals exempt low-income households from taxation

Shift from Progressive to Flat-Rate Tax

4 Issues in Income Tax Policy

- *Flat-rate tax* would tax all income at the same rate; progressive taxation implies increase in taxation rates as income increases.
- Change from progressive to flat-rate tax would change the distribution of tax burden:
 - Low-income groups harmed by having both average and marginal rates of taxation increased
 - Middle-income groups see average rate of taxation increase but marginal tax rates decrease
 - Upper-income groups have both average and marginal rates of taxation reduced

4 Issues in Income Tax Policy

7. PROBLEM: One definition of a progressive tax is a tax with an increasing marginal rate. An alternate definition of a progressive tax allows a constant marginal tax rate, but an increasing average tax rate. Using this latter form of progressive taxation, impose a constant marginal tax of 30%, but with a \$20,000 deductible amount from annual income. What is the average tax rate at an annual income of:

A. \$30,000? B. At \$50,000? C. Finally, at \$80,000?

ANSWER:

A.) $(\$30,000 - \$20,000) * 30\% \div \$30,000 = 10\%$

B.) $(\$50,000 - \$20,000) * 30\% \div \$50,000 = 18\%$

C.) $(\$80,000 - \$20,000) * 30\% \div \$80,000 = 22.5\%$

Inflation

4 Issues in Income Tax Policy

- Inflation implies that nominal income increases faster than real income.
- *Bracket creep* is an increase in effective rates of taxation of real taxable income when tax rate schedules are based on nominal values of income rather than real values.
- Indexation of tax brackets can prevent bracket creep, but inflation can still cause serious distortions in taxation of capital income.
 - Creates problems in accurately measuring interest income and capital gains
- Debtors benefit during inflation because outstanding balances on loans decrease in real terms

Inflation: Bracket Creep (Thailand)

4 Issues in Income Tax Policy

TAXABLE INCOME	2535 (1992) Rate	1992 Baht		2555 (2012) Rate	1992 in 2012 Baht	
		2535 (1992) (CPI = 100)	100,000 CPI = 52.80		2555 (2012) (CPI = 195.11)	1,951,100
0-100,000	5%	0	100,000	0%		
100,001-150,000	10%	100,001	150,000	0%		
150,001-500,000	10%	150,001	500,000	10%	292,667	975,550
500,001-1,000,000	20%	500,001	1,000,000	20%	975,552	1,951,100
1,000,001-4,000,000	30%	1,000,001	4,000,000	30%	1,951,102	7,804,400
> 4,000,000	37%	4,000,001		37%	7,804,402	

2. Suppose the expected inflation rate is 4 percent this year and the nominal interest rate is 8 percent. Assuming that a taxpayer is subject to a 28 percent MTR, show how an increase in the rate of inflation next year to 8 percent while the nominal interest rate rises to 10 percent affects taxation of nominal interest. How does inflation affect taxation of capital gains?

Ans.

- 1 The initial real interest rate is 4 percent. When inflation increases to 8 percent next year, while the nominal interest rate rises to 10 percent, the real interest rate actually falls to 2 percent, but the rate of taxation of nominal interest remains the same. This raises the effective rate of taxation on real interest.
- 2 Inflation increases the rate of taxation of real capital gains because the tax rate remains the same and is applied to the nominal gain rather than the real gains.

The Tax System and Marriage

- Income-splitting effect divides the income of both married taxpayers equally between them in computing taxes and pulls the income of the spouse who earns higher income into a lower tax bracket.
- Under the so-called "marriage tax", the rate for equal-income married taxpayers rose above the corresponding rate for two single taxpayers with the same income.
 - Tax rate schedule for a married person filing separately has tax brackets that result in higher tax rates compared to single taxpayers
 - Marriage penalty somewhat reduced for lower-income taxpayers
- EGTRRA addressed several concerns about the marriage penalty.

PIT for Married Couple (Thailand)

4 Issues in Income Tax Policy

Assessable Income

Income chargeable to the PIT is called “assessable income”. Assessable income is divided into 8 categories as follows :

1) You and your spouse can file a tax return jointly as before.

However, while doing so, either spouse may also select to file his or her employment income (Section 40 (1) income) separately by filing another ภ.ง.ด.91 form, or

2) You and your spouse can file separate tax returns for all types of income received, and pay personal income tax separately.

In case where certain income cannot be clearly identified as yours or your spouse’s, the following rules shall apply:

- For Sections 40(2) – 40(7) income, you and your spouse must divide the income received equally.
- For Section 40(8) income, as a general rule you and your spouse must divide the income received equally. Nevertheless, you and your spouse may agree upon the portion of income earned and pay income tax on that amount accordingly.

PIT for Married Couple (Thailand)

4 Issues in Income Tax Policy

• Deductible Expenses

The deductible expenses are split among the spouses in the same proportion as the joint income proportion.

• Allowances

Some allowances are calculated differently from tax year 2011. Main changes are as follows:

Child allowance: Each spouse is entitled to 15,000 Baht (17,000 Baht if the child is studying at the qualified level)

Home Loan Interest Deduction: Each spouse is entitled up to 100,000 Baht of interest deduction. However, if they enter into a loan agreement jointly, each of them is entitled to 50,000 Baht of interest deduction.

The Consumption Tax

4 Issues in Income Tax Policy

- To encourage saving, reformers have suggested allowing taxpayers to deduct saving for any purpose from taxable income:
 - Withdrawal of saving, negative saving (loans) would be added to income
- Tax base, therefore, becomes consumption.
 - If savings increase, would increase supply of loanable funds in credit markets and lower interest rates
 - Would shift burden of taxation from owners of capital toward workers
 - Over long run, however, if economic growth, all benefit in form of high wages, job opportunities



4 Issues in Income Tax Policy

5. Suppose the current progressive income tax structure is scrapped and replaced by a 15 percent tax on all income with no exemptions or deductions allowed except that the first \$10,000 of income will not be subject to taxation. Explain why this so-called flat-rate tax is really still a progressive-rate structure. How will the elimination of tax preferences affect resource allocation and prices in markets? How could the reform, if it really simplified the complexity of the tax code, save resources? What are some common objections to the flat-rate tax?

Ans.

- 1 The tax rate structure is a two-step progressive rate with a zero rate applying to the first bracket up to \$10,000 and 15 percent applying to income above that amount.
- 2 Elimination of tax preferences will reduce the excess burden of the income tax, but distortions in labor and capital markets will remain. The prices of tax-preferred activities are likely to be affected. For example, home prices could fall because of the elimination of the tax deductibility of mortgage interest.
- 3 There will be many shifts in demand and supply affecting the market prices of a slew of previously tax-preferred activities. To the extent to which the tax code is simplified, compliance costs will be reduced. Fees paid to tax preparers, accountants, and tax lawyers will fall and be reallocated for use elsewhere.
- 4 Typical objections to the flat-rate tax are based on notions of vertical equity. Many believe that the upper-income groups should pay higher percentages of their income in taxes than lower-income groups do. A shift from the current tax structure to the flat-rate tax will clearly increase the after-tax income of the upper-income groups and increase the tax burden on the lower-income groups.

Effective Tax Rates

5. How Progressive Are Federal Income Taxes? Effective Average and Marginal Tax Rates

- Congressional Budget Office (CBO) uses broad measure of family income
 - Sum of wages, salaries, business income, rents, interest, dividends, realized capital gains, cash transfer payments, payroll taxes (employers), other business payments such as contributions to retirement plans
- Then divides families into five groups, ranked according to income
- Estimates taxes paid by each group, divides by gross income of each group
- Results show *average effective tax rate*, or actual taxes as a percent of a measure of gross income for each group

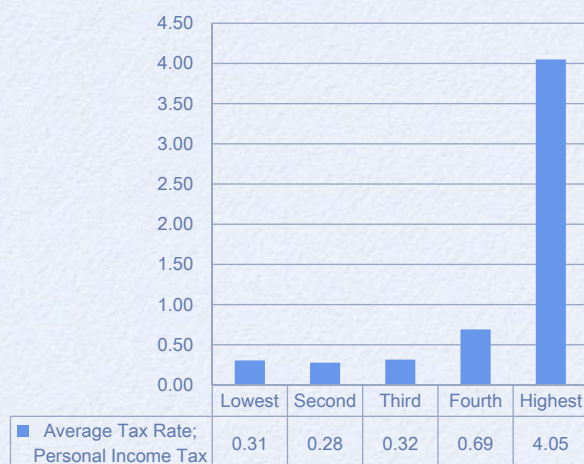
FIGURE 14.4

Effective Rates for Federal Individual Income Taxes and Total Federal Taxes (by Income Quintile, 2003)

Families are ranked by adjusted family income, with an equal number of people per quintile. Rates are for 2003.

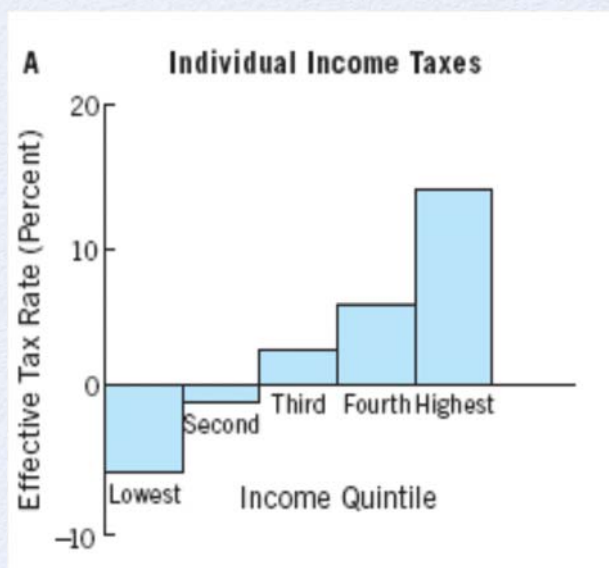
Thailand: 2009

Average Tax Rate; Personal Income Tax



Source: Aemkulwat (2010)

USA: 2003



Source: Congressional Budget Office

FIGURE 14.4

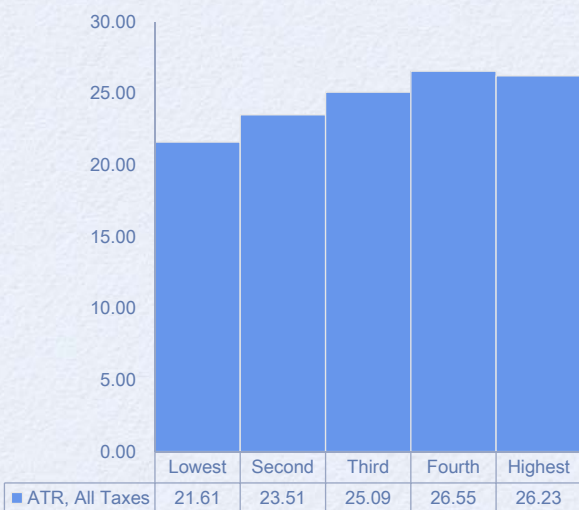
Effective Rates for Federal Individual Income Taxes and Total Federal Taxes (by Income Quintile, 2003)

Families are ranked by adjusted family income, with an equal number of people per quintile. Rates are for 2003.

Thailand: 2009

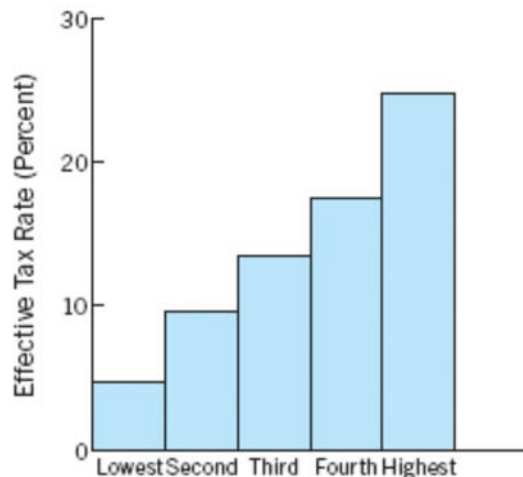
USA: 2003

ATR, All Taxes



Source: Aemkulwat (2010)

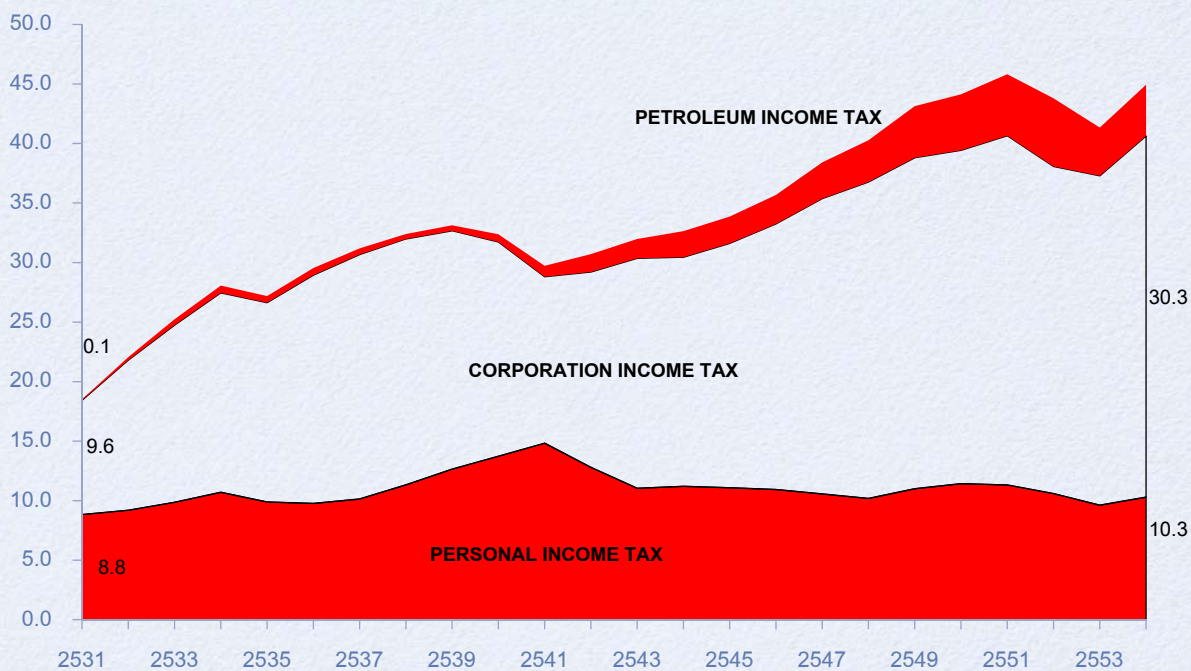
B All Federal Taxes



Source: Congressional Budget Office

DIRECT TAXES IN THAILAND

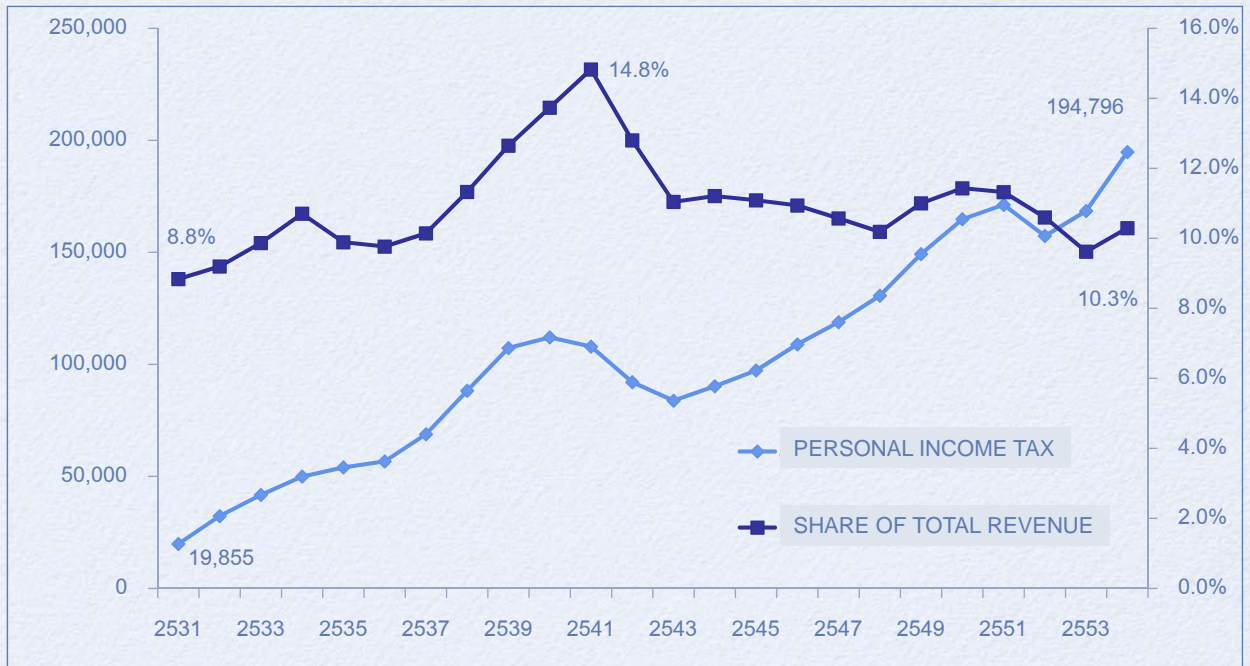
5. How Progressive Are Federal Income Taxes? Effective Average and Marginal Tax Rates



Source: www.fpo.go.th

PERSONAL INCOME TAX

5. How Progressive Are Federal Income Taxes? Effective Average and Marginal Tax Rates



Source: www.fpo.go.th

ฐานภาษีเงินได้บุคคลธรรมดา



ประชากร 65.4 ล้านคน

Population = 65.4 M



แรงงาน 38 ล้านคน

Labor = 38.0 M



11.7 ล้านคน ยื่น ภ.ว.ด. 90-91

File Income Tax = 11.7 M.



2 ล้านคน จ่ายภาษี
2.4 แสนล้านบาท

2 Million people paid 240,000 M.



3 หมื่นคน เสียภาษีอัตรา 37%
คิดเป็นเงินได้ 1.2 แสนล้านบาท

30,000 people paid 120,000 M.

ที่มา : กรมสรรพากร



State Income Taxes

5. How Progressive Are Federal Income Taxes? Effective Average and Marginal Tax Rates

- As of 2008, all but seven states used personal income taxation as major source of revenue.
 - Excludes Alaska, Florida, Nevada, South Dakota, Texas, Washington, Wyoming
- Most states have progressive rate structures.
 - California, Massachusetts, Michigan, Pennsylvania use flat-rate proportional rate structure
- On average, income tax generates nearly 30% of yearly revenue for state governments.
- Most states link personal income tax to federal income tax in some way.

State Income Taxes

5. How Progressive Are Federal Income Taxes? Effective Average and Marginal Tax Rates

TABLE 14.4 STATE INDIVIDUAL INCOME TAXES (Tax rates for tax year 2008 as of January 1, 2008)

STATE	TAX RATE RANGE (IN PERCENTS)		NUMBER OF BRACKETS	INCOME BRACKETS		PERSONAL EXEMPTION			FEDERAL INCOME TAX DEDUCTIBLE
	LOW	HIGH		LOWEST	HIGHEST	SINGLE	MARRIED	DEPENDENTS	
ALABAMA	2.0	- 5.0	3	500(b)	- 3,000(b)	1,500	3,000	300	*
ALASKA	No State Income Tax								
ARIZONA	2.59	- 4.54	5	10,000(b)	- 150,000(b)	2,100	4,200	2,300	
ARKANSAS (a)	1.0	- 7.0(e)	6	3,699(b)	- 31,000(b)	23(c)	46(c)	23(c)	
CALIFORNIA (a)	1.0	- 9.3(w)	6	6,827(b)	- 44,815(b)	94(c)	188(c)	294(c)	
COLORADO	4.63		1	—Flat rate—			None		
CONNECTICUT	3.0	- 5.0	2	10,000(b)	- 10,000(b)	12,750(f)	24,500(f)	0	
DELAWARE	2.2	- 5.95	6	5,000	- 60,000	110(c)	220(c)	110(c)	
FLORIDA	No State Income Tax								
GEORGIA	1.0	- 6.0	6	750(g)	- 7,000(g)	2,700	5,400	3,000	
HAWAII	1.4	- 8.25	9	2,400(b)	- 48,000(b)	1,040	2,080	1,040	
IDAHO (a)	1.6	- 7.8	8	1,237(h)	- 24,736(h)	3,500(d)	7,000(d)	3,500(d)	
ILLINOIS	3.0		1	—Flat rate—			2,000	4,000	2,000
INDIANA	3.4		1	—Flat rate—			1,000	2,000	1,000
IOWA (a)	0.36	- 8.98	9	1,379	- 62,055	40(c)	80(c)	40(c)	*
KANSAS	3.5	- 6.45	3	15,000(b)	- 30,000(b)	2,250	4,500	2,250	
KENTUCKY	2.0	- 6.0	6	3,000	- 75,000	20(c)	40(c)	20(c)	
LOUISIANA	2.0	- 6.0	3	12,500(b)	- 25,000(b)	4,500(i)	9,000(i)	1,000(i)	*
MAINE (a)	2.0	- 8.5	4	4,849(b)	- 19,450(b)	2,850	5,700	2,850	
MARYLAND	2.0	- 5.5	7	1,000	- 500,000	2,400	4,800	2,400	
MASSACHUSETTS (a)	5.3		1	—Flat rate—			4,125	8,250	1,000
MICHIGAN (a)	4.35		1	—Flat rate—			3,300	6,600	3,300
MINNESOTA (a)	5.35	- 7.85	3	21,800(j)	- 71,591(j)	3,500(d)	7,000(d)	3,500(d)	
MISSISSIPPI	3.0	- 5.0	3	5,000	- 10,000	6,000	12,000	1,500	
MISSOURI	1.5	- 6.0	10	1,000	- 9,000	2,100	4,200	1,200	* (r)
MONTANA (a)	1.0	- 6.9	7	2,500	- 14,900	2,040	4,080	2,040	* (r)
NEBRASKA (a)	2.56	- 6.84	4	2,400(k)	- 27,001(k)	113(c)	226(c)	113(c)	
NEVADA	No State Income Tax								
NEW HAMPSHIRE	State Income Tax is Limited to Dividends and Interest Income Only.								

RECAP: Chapter 12 PERSONAL INCOME TAXES IN THAILAND THE UNITED STATES

- The Tax Base: Basic Rules for Calculating Taxable Income and Why Much of Income Is Untaxed
- Tax Preferences
- Why Tax Preferences under the U.S. Income Tax System
- Issues in Income Tax Policy
- How Progressive Are Federal Income Taxes? Effective Average and Marginal Tax Rates