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CABINET GIVES GREEN LIGHT FOR TAX ON PROPERTY OWNERS BENEFITING FROM INFRASTRUCTURE PROJECTS 1

PROPERTY 'WINDFALL TAX' IS LONG OVERDUE 1

Cabinet gives green light for tax on property owners benefiting from infrastructure projects

The Cabinet on Tuesday agreed with the Finance Ministry's proposal in a draft bill to collect a windfall tax from property owners benefiting from expressway, mass transit, high-speed rail, airport and other infrastructure projects.

The draft bill will soon be sent to the Council of State – the government's legal advisory body – before being submitted to the National Legislative Assembly to have a final say on its content.

The Finance Ministry wants to collect taxes from those who benefit from government infrastructure projects such as expressways, double-track rail, high-speed rail, mass transit, airports and ports.

Tax would be imposed on a property's value-added price derived from being located close to an infrastructure project, within a radius of 5 kilometres.

Those who own land, condominiums or office buildings would be subjected to a transaction tax rate with an upper ceiling of 5 per cent on the value-added price, although the applied rate would be finalised later, said Pornchai Theeravej, finance and economics adviser to the ministry's Fiscal Policy Office.

Under the draft law, there would two instances for tax collection: before and after the complete construction of an infrastructure project.

In the first case, during ongoing infrastructure-project construction, transactions of condominium units or land would be subject to tax with no exemption.

After complete construction of an infrastructure project, the transaction of property for commercial use worth more than Bt50 million would be subject to tax, but residential and agricultural use would be exempted.

The tax base of a property's price would be evaluated by the Treasury Department, and not be subject to the market price.

Property 'windfall tax' is long overdue

The government is poised to get some cash back from developers who build near public transport systems

The Cabinet will soon forward to the National Legislative Assembly (NLA) a "windfall tax" bill on sales of properties whose owners gain financially from government investment in public transport.

The proposed law targets both existing and new commercial developments such as condominiums that are located within five kilometres of public transport systems in which the government has invested. The aim is to redistribute the excess profits that private landowners and developers derive from multibillion-baht public-investment projects, such as elevated and underground railways.

The market value of privately owned properties often jumps after the state invests taxpayers' money in new mass transit systems such as elevate trains and subways. The private sector subsequently benefits from building high-rise condominiums and other commercial projects on adjacent land, projects that command a much higher market value due to their close proximity to the new infrastructure.

Proponents of the bill believe it's unfair to the general public when landowners and investors gain enormously from the so-called windfall profits after taxpayers' money pays for the transport infrastructure. The ordinary citizen gets nothing in return.

The proposed law aims to levy a maximum 5-per-cent tax rate on the extra profits earned by landlords, condo developers and condo sellers, as well as other beneficiaries, when they sell their properties following completion of public transport projects. These people also benefit from public investment in elevated tollways, dual railways, seaports and the like and would be taxed accordingly under the bill.

The government estimates that landowners gain ten- to 20-fold in terms of the market value of their properties due to public transport infrastructure investment projects. It is thus warranted in levying a tax on windfall profits, which will generate more funds for future investment in public transport. In the past two decades, the government has spent hundreds of billions of baht in taxpayers' money on transport projects, with more than 10 mass transit routes now under construction or recently completed, particularly in Bangkok and neighbouring provinces.

The proposed windfall tax is not to be confused with the land and building tax bill currently awaiting its second and final readings at the NLA later this month. Both pieces of legislation are seen as necessary fiscal measures in boosting government coffers, including those of local governments and, in doing so, reducing their dependence on the central government for development funds.

For the central government, land and property tax rates have been relatively low for a long time, so these bills represent a new growth area in terms of tax revenues. This is especially notable in view of the rapid economic growth rate and urbanisation of recent several decades in Bangkok and other major cities.

Regarding other revenue sources, such as income tax and consumption taxes like value-added tax, the outlook is not favourable either, since these appear to have reached their limit. Several countries have been unsuccessful in raising the VAT rate from the current 7 per cent due to its unpopularity, while the tax rates on personal income and corporate profits have been on a downtrend globally.

As a result, both the windfall tax and the new land and building tax are crucial to restoring a sense of fairness in Thai society.