



THAILAND – January 2020

NEW LAND TAX HAS LOOPHOLES..... 1

New land tax has loopholes

In the new land and building tax law set to take effect at the beginning of next year, landlords and homeowners will be taxed based on appraised values and new rates set for different categories of properties, rather than the income they generate.

However, the period for their tax filing under the new system has been pushed back to August next year instead of April. This will give the government some time to address certain troubling issues relevant to the new tax regime to ensure fairness among different groups of taxpayers.

Under the new law, tax rates on vacant land are the highest among those set for various types of property. That means they are higher than rates set for agricultural land. And that explains why many owners of vacant land in Bangkok's prime areas have started planting trees on their plots.

For instance, one news report suggested that a vacant 20-rai plot on Bangkok's Ratchadaphisek Road has become what appears to be a lime tree plantation. With land in the area appraised at 400,000 baht per square wa, or 160 million baht per rai, such a plot would be worth at least 3.2 billion baht. However, the actual market price is said to be more than double that.

Base on the appraised value, the landlord would be liable for the 0.6% tax rate applicable to vacant land, or 19.2 million baht a year. But with lime trees growing there, the Finance Ministry's permanent secretary Prasong Poontaneat said the plot could be classified as "agricultural land" and subject to a much lower tax rate of 0.1%, or about 3.2 million baht a year.

This apparent loophole has raised doubts about whether the land and building tax, which is considered a major tax reform, will achieve its goals of reducing income disparity and generating more revenue for local administrative organisations.

And that is without mentioning the matter raised at the outset of the drafting about why the appraisal value ceiling set on residential land and buildings eligible for tax exemption is as high as 50 million baht. Is there a big difference in the commercial value of a tax-exempt 40-million-baht home and that of a tax-liable 51-million-baht residence, for instance?

Moreover, the middle class will likely be more affected by the high tax rates set for vacant land than the rich. For example, middle-income earners who used their life savings to buy a small plot of 0.25 rai with the intention of keeping it for their kids to build a home when they grow up would have to pay the same tax rate that applies to a landlord who owns 100 rai of land.

Of course, those middle-income people can avoid paying the high tax rates by turning their vacant plots into agricultural land as some owners have already begun to do. But the cost of growing trees and maintaining them over time will be financially burdensome for them while they could be negligible expenses for the billionaires.

The new law also does a big favour to those rich people who own golf courses. It grants them a 90% tax deduction. Rationale? Golf courses are considered land development for the purpose of "sports promotion". However, it is well known that golf courses usually earn lucrative incomes from their expensive membership fees and hefty service charges imposed on their customers.

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While the long-awaited land and building tax is nearly ready to get off the ground, these apparent flaws must be further reviewed by the government. This is to ensure the new tax structure is fair on different groups of property owners and is fit to serve its goal of reducing income disparity.

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