

## Is Value Added Tax reduction a suitable policy for Thailand?

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### บทคัดย่อ

เมื่อวันที่ 24 สิงหาคม พ.ศ. 2564 คณะรัฐมนตรีได้อนุมัติการขยายเวลาการลดภาษีมูลค่าเพิ่มในร้อยละ 7 ต่อไป จนถึงวันที่ 30 กันยายน พ.ศ. 2566 เป้าหมายของนโยบายดังกล่าว ได้แก่ เพื่อกระตุ้นเศรษฐกิจ เพื่อลดค่าครองชีพของประชาชน เพื่อสร้างความมั่นใจให้กับภาคเอกชนในการประกอบธุรกิจ และเพื่ออำนวยความสะดวกแก่การลงทุนด้านสาธารณูปโภค งานชั้นนำมุ่งวิเคราะห์ความเหมาะสมของกฎหมายโดยผู้เขียนจะศึกษาประสิทธิภาพของกฎหมายดังกล่าวในการบรรลุวัตถุประสงค์และการสร้างดุลภาพระหว่างประโยชน์ที่ได้รับจากนโยบายสิทธิประโยชน์ทางภาษาระหว่างประเทศและภาษีมูลค่าเพิ่ม

**คำสำคัญ:** ภาษีมูลค่าเพิ่ม, ประเทศไทย

### Abstract

On 24th August 2021, the Thai Cabinet approved the extension of the reduced Value Added Tax (VAT) rate of 7%, effective until 30th September 2023. The objectives of this policy are: (a) to stimulate economic mechanisms; (b) to reduce the living cost of the people; (c) to build private sector's trust in conducting business; and (d) to facilitate the smooth running of infrastructure investment. The paper seeks to evaluate whether the reduction of Value Added Tax is suitable for Thailand. The author will determine its effectiveness in achieving its objectives and whether the benefit from the tax incentive outweighs the loss of revenue or not.

**Keyword:** Value Added Tax, Thailand

## Introduction

On 24<sup>th</sup> August 2021, the Thai Cabinet approved the extension of the reduced Value Added Tax (VAT) rate of 7%, effective until 30<sup>th</sup> September 2023. According to the annotation at the end of the Royal Decree issued under the Revenue Code on Reduction of Value Added Taxes (No. 669) B.E. 2561 (2018), the objective of this policy is to stimulate economic mechanisms, reduce the living cost of the people, to build private sector's trust in conducting business, and facilitate the smooth running of infrastructure investment.

This policy is supposed to increase economic activities and reduce people's living costs. However, many scholars have questioned whether Value Added Tax reduction is really fulfilling its purpose<sup>1</sup>. It is necessary that the reduction of Value Added Tax is effectively serving its purpose, as the reduction of Value Added Tax, the main source of income for the government, means a considerable loss of income for the government<sup>2</sup>. The income that is to be used in the finance investments in human capital, infrastructure, and the provision of services for citizens and businesses. The loss of revenue gained from Value Added Tax will cause a domino effect affecting our entire economic system<sup>3</sup>.

In this paper, the author will evaluate whether the reduction of Value Added Tax is suitable for Thailand or not by determining its effectiveness in achieving its objectives and whether the benefit from the tax incentive outweighs the loss of revenue or not.

## Overview of the policy

This policy from the Royal Decree issued under the Revenue Code on Reduction of Value Added Taxes (No. 669) B.E. 2561 (2018), reduces the Value Added Tax rate to 7% instead of 10%, as stated in section 80 of the Revenue Code.

This Value Added Tax (hereinafter VAT) reduction policy to the rate of 7 percent (6.3 percent for the central government and 0.7 percent for local tax) was first introduced in the Royal Decree issued under the Revenue Code on Reduction of Value Added Taxes (No. 353) B.E. 2542 (1999). The initial duration of the policy is two years. However, the government has repeatedly declared new royal decrees extending the tax incentive period until today. Currently, Thailand's VAT rate has been temporarily reduced for over two decades.

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<sup>1</sup> ชัยสิทธิ์ อนุชิตวรวงศ์, 'การกระจายของภาระภาษีทางอ้อม' [2013] 5(11) โครงการ “การปฏิรูปเศรษฐกิจเพื่อความเป็นธรรมในสังคม” <[https://tdri.or.th/wp-content/uploads/2013/05/A151\\_Chapter11.pdf](https://tdri.or.th/wp-content/uploads/2013/05/A151_Chapter11.pdf)> accessed 4 November 2022

<sup>2</sup> see figure 3

<sup>3</sup> PEbrill Liam and others, The Nature, Importance, and Spread of the VAT (2001)

This tax reduction increases real gross domestic product as it reduces the cost of spending for the people. However, it also reduces government income. This reduction of government income by the reduction of VAT collection is especially significant in Thailand, where VAT is the main source of income for the government.

### Criteria for evaluation

Before assessing whether this VAT reduction policy is a suitable policy for Thailand or not, the author will explain the criteria used to evaluate good policy in this paper first.

This paper uses cost-benefit analysis to determine whether this VAT reduction policy costs more losses in revenue or produces more rewards in the form of economic growth.

Another criterion used in this paper is Adam Smith's work on *The Wealth of Nations* (1776), which states that taxation should follow the four principles of fairness, certainty, convenience, and efficiency<sup>4</sup>.

This fairness in taxation must be compatible with taxpayer conditions, including the ability to pay according to individual and family needs. Certainty should mean that the taxpayer is clearly informed about why and how the tax is collected. Convenience means easier compliance for taxpayers. It is determined by questioning how easy the process of collecting or paying taxes is. Finally, the efficiency of tax collection. Fundamentally, the administration of tax collection should not adversely affect the allocation and use of resources in the economy and certainly should not cost more than the tax itself.

### Thai's tax structure

Another relevant issue that needs to be taken into consideration is Thai's tax structure. As it is essential in determining the importance of VAT, which will be used in the cost-benefit analysis.

According to the Thailand Government Spending official website<sup>5</sup>, the Thai government collects revenue from various types of taxes through five main collectors; The Revenue Department, The Excise Department, The Customs Department, and other government agencies. Among these departments, for the last eight years, the Revenue department collected more than half of the total revenue, contributing to 66.3 percent in the fiscal year

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<sup>4</sup> Adam Smith, *The Wealth of Nations* (1776)

<sup>5</sup> Government spending data, 'ภาษีมหักดิบ' (ภาษีไปไหน, 2022) <<https://govspending.data.go.th/dashboard/5>> accessed 4 November2022

of 2021 and 64.9 percent of all revenue in the fiscal year of 2022, as of the 1<sup>st</sup> of March. When looked further, among all taxes collected by the Revenue department, the number one contributor in all eight years is VAT. Making VAT the biggest source of income for the Thai's government.

The following chart represents the amount of revenue indicating the percentage of revenue collected from VAT, Corporate Income Tax, Natural Person Income tax, and other types of taxation combined in each year since B.E.2558 (2015), the oldest information available on the Thailand Government Spending official website. It is important to note that for fiscal year B.E. 2565 (2022), the data are as of the 1<sup>st</sup> of March.

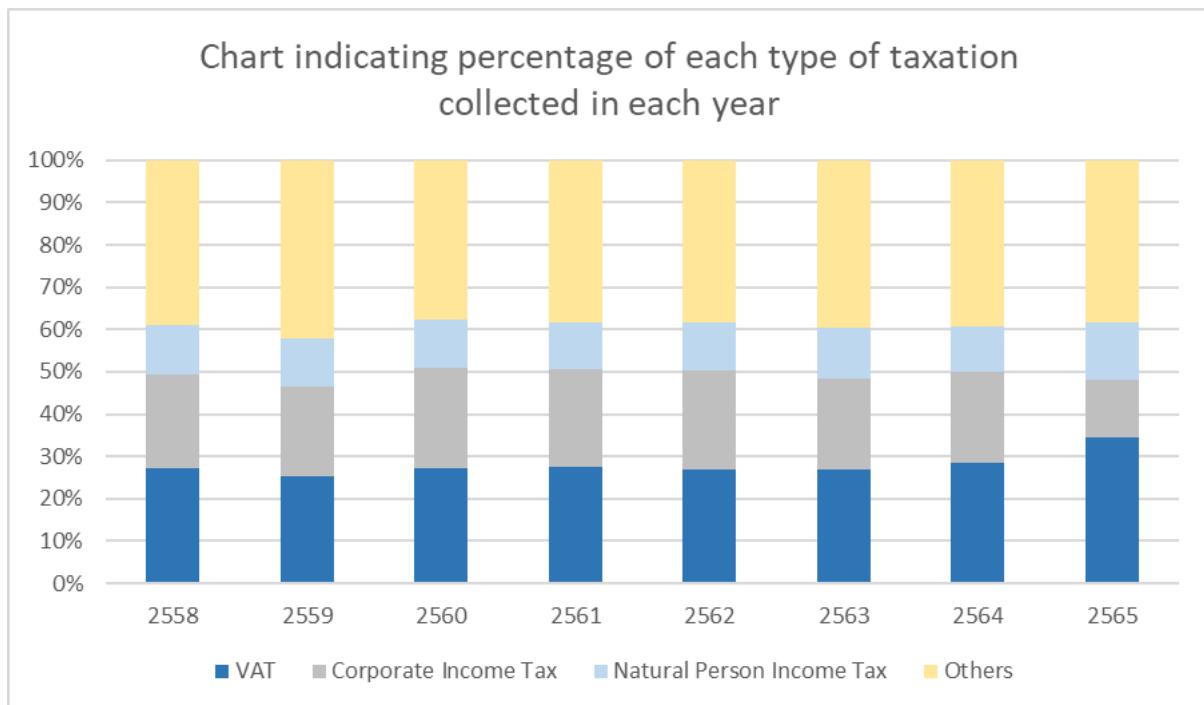


figure 1

The following graph represents the amount of revenue (in trillions of Baht) collected from VAT when compared to total revenue collected by the government in each year since B.E.2558 (2015).

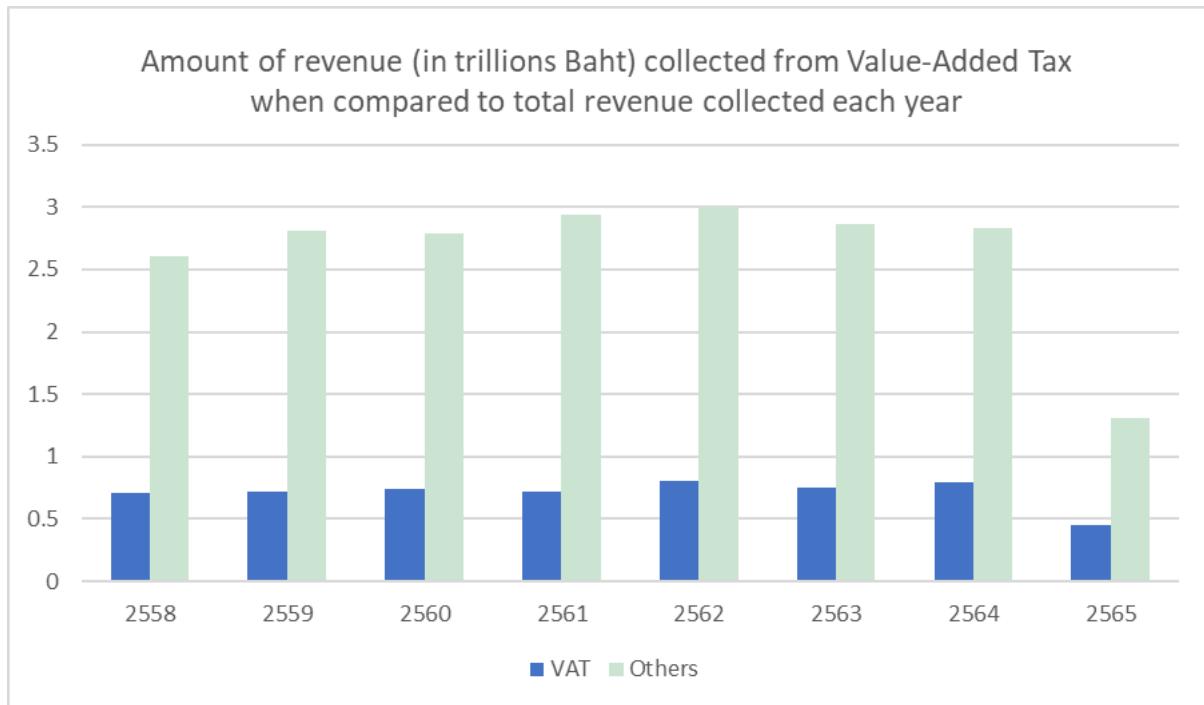


figure 2

This table indicates the amount of revenue (in trillions of Baht) collected from Value Added Tax when compared to total revenue collected by the government and the percentage of how much Value Added Tax contributes to that year's total revenue.

Fiscal year	Total revenue	VAT	Percentage
2015	2.61	0.71	27.20%
2016	2.81	0.72	25.60%
2017	2.79	0.74	26.50%
2018	2.97	0.72	24.20%
2019	3	0.8	26.70%
2020	2.86	0.75	26.20%
2021	2.82	0.79	28%
2022	1.31	0.45	34.40%

figure 3

As can be seen from the table above, for the past eight years, VAT has contributed to more than a quarter of total revenue collected, with the exception of fiscal year B.E. 2561 (2018) where the percentage is slightly lower than a quarter. This data emphasizes the importance of VAT and confirms that VAT is the biggest source of revenue for Thailand's government.

## Value Added Tax according to Thai Revenue Code

VAT is an indirect tax levied on value added at all stages of production and distribution. Any natural or juristic person who regularly supplies goods or provides services in Thailand with annual turnover exceeding his 1.8 million baht shall be subject to VAT. If the Service is provided in Thailand, it shall be deemed to be provided in Thailand regardless of where it is used, as well as if it is provided elsewhere and used in Thailand.

Section 80 of the Revenue code has set the rate of VAT to 10 percent for these following businesses; sale of goods, provision of services, and importation. This provision also allows reduction of the tax rate provided that the reduction is made by Royal Decree and the rate for each sale of goods, provision of services or importation shall be the same rate<sup>6</sup>.

### Exemption of Value Added Tax in Thailand

However, not only sale of goods, provision of services, and importation, the Revenue code also contains sections that specify activities that may be exempted from VAT, including section 81, and section 81/1.

Section 81/1 exempted “*business person, carrying on the business of sale of goods or provision of services subject to value added tax and the value of tax base not exceeding that of small business as prescribed by Royal Decree*”, which is annual turnover exceeding 1.8 million Baht<sup>7</sup>.

Section 81 provides several activities that are exempted from VAT. The provision stated;

“*Value added tax shall be exempt on the following businesses-*

*(1) sale of goods but not for export purpose or provision of services as follows:*

*(a) sale of agricultural products whether they are trunks, branch, leaf, bark, offshoot, root, bud, bulb, pod, seed or other parts of plants and their by- products in fresh or preserved condition in order to temporarily prevent from spoiling during transportation by chilling, frozen means or by other means or preservation to prevent from spoiling for retail sale or whole sale by chilling, frozen, drying , grinding, segmentation method or by other method, white rice or by-product from rice milling but not including wood, firewood or products from wood*

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<sup>6</sup> Section 80 of the Revenue code

<sup>7</sup> section 4 of พรบ.ราชกฤษฎีกาฉบับที่ 432/2548 by the Revenue department

sawing or food products in can container or package processed on manufacturing basis in accordance with terms and conditions prescribed by the Director-General.

(b) sale of alive or dead animals, and in the case of non- alive animal whether it be flesh, parts of animal, egg, milk or by-product from animal in fresh or preserved condition to temporarily prevent from spoiling during transportation by chilling, frozen means or by other mean or preservation to prevent from spoiling for retail sale or wholesale by chilling, frozen, dried, grind, segmentation means, or by other means, but not including food product in can container or package done on manufacturing basis in accordance with terms and condition prescribed by the Director-General;

(c) sale of fertilizers;

(d) sale of fish meal , animal feed;

(e) sale of pharmaceutical or chemical products used on plants or animal for nourishing, preventing, destroying, or eliminating pesticide or disease of plants and animals,

(f) sale of newspaper, magazine or school books,

(g) provision of educational services of public educational institutions, educational institutions under the law governing private universities or private schools under the law governing private school,

(h) provision of services relating to art and cultural work in field and category of business as prescribed by the Director-General with the Minister's approval,

(i) provision of services in medical treatment, accounting, lawyer or other liberal professional services as prescribed by Revenue Department with Minister's approval and governed by the laws governing such liberal professional services;

(j) provision of medical service of health institution under the law governing such health institution;

(k) provision of research or academic services as prescribed by the Director- General with the Minister's approval;

(l) provision of services of library, museum, zoo;

(m) provision of services under employment contract;

(n) provision of services on organizing amateur sports;

(o) provision of services by public entertainer as prescribed by the Director- General with the Minister's approval;

(p) provision of domestic transport;

(q) provision of international transport excluding transport by aircraft or ship;

(r) rental of immovable property;

(s) provision of service of local authority excluding commercial services of local authority or service generating income or benefit whether it is infrastructure business or not;

(t) sale of goods or provision of services of a ministry, department which remit all revenue to the state without deducting expenses;

- (u) *sale of goods or provision of services for the benefit of religions or public charity in Thailand and profits arising therefrom are not used for other purposes*
- (v) *sale of goods or provision of services as prescribed by Royal Decree;*
- (2) *import of the following goods;*
  - (a) *goods specified under (1) (a) to (f);*
  - (b) *goods from abroad imported into customs free zone but applicable only to goods exempt from import duty under the law governing such matter;*
  - (c) *goods classified into duty exemption category under the law on customs tariff;*
  - (d) *goods imported and kept under care of Customs officials, and sent back abroad and import duty has been returned under the customs law;*
- (3) *export of goods or services by VAT registrant which is required to pay value added tax under Section 82/16.*

*In relation with exemption of value added tax under this Section, the Director-General may propose to the Commission of Taxation to determine category of business and conditions for exemption under this Section and when the Commission of Taxation has set the ruling, such ruling shall be published in the Royal Gazette, and if the business is not in accordance with category and condition prescribed, such business shall not be exempt from value added tax under this Section.”<sup>8</sup>*

From the example of activities that are not subjected to VAT, the most relevant activities to this paper are those that are related to the living cost of the people and private sector business and infrastructure development. Which are the exemption for agriculture and animal products, medical services, transportation, education, and small entrepreneurs.

#### **Other studies about the effectiveness of VAT reduction policy.**

There are many studies by scholars around the world regarding VAT reduction policy and its effect on the economy. Including, “Discretionary fiscal responses to the COVID-19 pandemic” by Michael P Devereux, İrem Güçeri, Martin Simmler, Eddy H F Tam suggests that a temporary VAT rate cut could be complementary to other fiscal and monetary measures in helping the economy to recover more quickly.<sup>9</sup>

Another study acknowledging the benefit of VAT reduction policy is “A temporary VAT cut could help stimulate the economy, but only if timed correctly” by Richard Blundel, Peter

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<sup>8</sup> Section 81 of the Revenue code, official translation

<sup>9</sup> Michael P devereux and others, 'Discretionary fiscal responses to the COVID-19 pandemic' [2020] 36(1) Oxford Review of Economic Policy S225–S241

Level, and Helen Miller<sup>10</sup>. This study suggested that a temporary VAT cut is one of the best incentives that can help stimulate the economy during COVID-19 crisis. Provided that the policy is timely implemented.

“Really Uncertain Business Cycles” found that tax incentives can have an impact on the level of investment. However, the effectiveness of such measures is likely to be more muted in times of greater uncertainty<sup>11</sup>.

In “What Goes Up May Not Come Down: Asymmetric Incidence of Value-Added Taxes” by Youssef Benzarti, Dorian Carloni, Jarkko Harju, and Tuomas Kosonen, the authors acknowledges that VAT reduction does affect the prices of goods in the market. Interestingly, they also emphasized that prices respond twice as much to VAT increases as to VAT decreases.<sup>12</sup>

Another paper from Institute for Fiscal Studies on ‘Using a Temporary Indirect Tax Cut as a Fiscal Stimulus: Evidence from the UK’ find that this VAT rate cut increased consumption by 0.4 per cent during the period of the lower rate, but that this was followed by a significant fall in consumption when it ended.<sup>13</sup>

“Varieties of VAT Pass Through” by Benedek, D, de Mooij, R A, Keen, M, and Wingender pointed out another element that affects the effectiveness of VAT reduction policy which is how much does the VAT rate cut is passed onto consumers. The authors stated that “With imperfect competition, the VAT rate cut may over- or under-shift the consumer price.”<sup>14</sup>

The mentioned studies above acknowledged that VAT reduction policy can positively affect the economy by the reduction of prices that have been proven to result in more transactions. However, the policies need to fulfill some conditions for it to be effective. The conditions, deducted from all of the studies above, are;

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<sup>10</sup> Richard blundel and others, 'A temporary VAT cut could help stimulate the economy, but only if timed correctly' [2020] BN297 Institute for fiscal study Briefing Note

<sup>11</sup> Floetotto, M, Jaimovich, N, Saporta-Eksten, I, and Terry, S J. (2018), ‘Really Uncertain Business Cycles’, *Econometrica*, 86(3), 1031–65.

<sup>12</sup> Youssef Benzarti, Dorian Carloni, Jarkko Harju, and Tuomas Kosonen, ‘What Goes Up May Not Come Down: Asymmetric Incidence of Value-Added Taxes, <<https://www.journals.uchicago.edu/doi/10.1086/710558>>

<sup>13</sup> Sleeman, C. (2014), ‘Using a Temporary Indirect Tax Cut as a Fiscal Stimulus: Evidence from the UK’, IFS Working Paper, W14/16, Institute for Fiscal Studies.

<sup>14</sup> Benedek, D, de Mooij, R A, Keen, M, and Wingender, P. (2020), ‘Varieties of VAT Pass Through’, *International Tax and Public Finance*.

1. The policy should be implemented timely, if the policy was introduced when the people were going to make the transactions anyway, the policy will not be an effective incentive. Instead, it will become a deadweight loss for the government.
2. The VAT reduction will only incentivize people to spend more if such reduction leads to price reduction. Thus, the government needs to ensure fair competition within the market so that the market mechanism can properly function and the consumers can benefit from this policy.
3. As “What Goes Up May Not Come Down: Asymmetric Incidence of Value-Added Taxes” has indicated that the prices are more reactive toward increase of VAT rate and its decrease. This indicates that negative reinforcement is more effective. However, the overusing of negative reinforcement may result in resistance. Thus, a policy should have both types of reinforcement. This can be easily achieved by limiting the duration of the incentive, i.e., making the VAT reduction policy a temporary one.

#### Other countries' implementation of VAT reduction policy

Currently, there are many other countries that also adopt VAT reduction policy to reduce the economic impact from the COVID-19 pandemic. For example;

1. The United Kingdom had reduced the VAT rate from 20 percent to 5 percent for hospitality, holiday accommodation and attractions made between 15 July 2020 and 30 September 2021<sup>15</sup>.
2. Spain temporarily reduced the energy VAT tax rate for low-power household consumers from 21 percent to 10 percent. This tax measure was recently extended until 31 December 2022<sup>16</sup>.
3. Belgium temporarily cut the gas and energy VAT tax rate from 21 to 6 percent between April 1 and September 30, 2022.
4. On 1 July 2020 Germany reduced the VAT rate from 19 percent to 16 percent and the reduced rate from 7 percent to 5 percent. The reduced rate applies to a portion of consumption in Germany including some foods, transportation options, reading materials, and cultural events.

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<sup>15</sup> Hm revenue & customs, 'VAT: reduced rate for hospitality, holiday accommodation and attractions' (GOV UK, 9 July 2020) <<https://www.gov.uk/guidance/vat-reduced-rate-for-hospitality-holiday-accommodation-and-attractions>> accessed 12 November 2022

<sup>16</sup> Spanish Official Gazette March 30 published Royal Decree Law No. 6/2022

However, it is important to keep in mind that in all of the sample above, the VAT reduction was made for certain types of activities and effective for a limited amount of time and some countries have already resumed using normal tax rates. Unlike in Thailand where the VAT rate reduction is applied to every taxed transaction and this policy has been repeatedly extended for decades. So, the fact that many other countries also use this policy may not be enough to prove the effectiveness of Thai's policy.

In this paper, the author will also look into what tax incentives South Africa is using. The reason why the author chose South Africa is because, according to data from World Bank national accounts data, and OECD National Accounts data files<sup>17</sup>, its Gross Domestic Product (GDP) and Gross Domestic Product per capita is similar to that of Thailand's. Moreover, according to joint publication between National Treasury and the South African Revenue Service on South Africa's 2021 tax statistics, 26.5 percent of total tax revenue came from Value Added Tax. A number of percentages similar to Thai's.

Even Though Thailand's and South Africa's GDP, GDP per capita, and percentage of VAT to total revenue is similar, unlike Thailand, South Africa does not have any VAT reduction policy. And its Value Added Tax rate is 15 percent, more than double of Thai's rate. Instead, they use tax rebates instead<sup>18</sup>. Unlike VAT reduction where people can save a small amount of money from each taxed transaction, tax rebates give a bigger amount of money to the people at the end of a tax year instead. This makes the benefit from the tax incentive more apparent to the people.

**Can VAT reduction fulfill these following objectives; stimulate economic mechanisms, reduce the living cost of the people, build private sector's trust in conducting business, and facilitate the smooth running of infrastructure investment?**

As can be seen from various studies mentioned above<sup>19</sup> and evidence from the United Kingdom<sup>20</sup> VAT reduction from December 2008 until December 2009 that succeeded in

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<sup>17</sup> World bank national accounts data, and oecd national accounts data files, 'GDP per capita' (The World Bank) < <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD> > accessed 1 December 2022

<sup>18</sup> Pwc, 'Individual - Foreign tax relief and tax treaties' (South Africa, 30 June 2022) < <https://taxsummaries.pwc.com/south-africa/individual/foreign-tax-relief-and-tax-treaties> > accessed 4 November 2022

<sup>19</sup> see Other studies about the effectiveness of VAT reduction policy.in page 10

<sup>20</sup> Yue meiguo and Yun Rui shi, 'Impact of the VAT reduction policy on local fiscal pressure in China in light of the COVID-19 pandemic: A measurement based on a computable general equilibrium model' [2021] 69() Economic Analysis and Policy 253-264

boosting consumer sentiment and retail sales<sup>21</sup>. The reduction of VAT rate does contribute to the stimulation of economic mechanisms.

As for whether it reduces the living cost or not, since section 80 of Thai's revenue code has exempted several types of activities including; agriculture and animal products, medical services, transportation, education, and small entrepreneurs from VAT collection altogether. The effect of VAT reduction on the living cost is significantly reduced<sup>22</sup>.

The next objective is encouraging the private sector to do business and facilitate the smooth running of infrastructure investment in Thailand. This objective is quite complicated and hard to fulfill. While lower VAT rate does mean lower supply cost, business operators also consider other things that may be more important than the cost of supply. For instance, the cost of law compliance. This includes the expense on tax law compliance, so, the potential business operators will also consider the certainty of the tax law before investing. The policy with an effective period of two years means that in every two years business operators have to meet with uncertainty whether the VAT rate will be reduced or not. This increases the law compliance cost, thus, reducing the total benefit business operators can receive from the policy.

Another important element that affects the effectiveness of the policy is the implementation which includes the duration, the announcement of the adaptation of the policy, and the announcement of the expiration of the policy. VAT reduction policy is a type of tax incentive, so, in addition to assessing whether the policy can contribute to the goal or not, we also need to look into the implementation of the policy, whether the implementation can bring about the best result from the policy or not.

## Conclusion

Value Added Tax (VAT) reduction is one of the tax incentives that the government could use to help stimulate the economy. It has been proven by evidence from real usage such as in Thailand<sup>23</sup> and the United Kingdom<sup>24</sup>. However, the VAT reduction policy is suitable as a temporary policy. As it causes significant loss in revenue from indirect tax. Especially in

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<sup>21</sup> Janjala Chirakijja, Thomas Crossley, Melanie Lührman and Cormac O'Dea (2009) "The Stimulus Effect of the 2008 UK Temporary Vat Cut" National Tax Association Proceedings and Thomas Crossley, Hamish Low and Cath Sleeman (2014), "Using a Temporary Indirect Tax Cut as a Fiscal Stimulus: Evidence from the UK", IFS Working Paper W14/16. Institute for Fiscal Studies, London.

<sup>22</sup> ผลกระทบของการลด税率ศรษฐกิจ โดยมาตรการทางภาษีและการเพิ่มการใช้จ่ายภาครัฐ

<sup>23</sup> ฝ่ายการวิจัยนโยบายศรษฐกิจส่วนรวม, 'ผลกระทบของการลด税率ศรษฐกิจ โดยมาตรการทางภาษีและการเพิ่มการใช้จ่ายภาครัฐ' [B.E. 2542] <<https://tdri.or.th/wp-content/uploads/2013/05/M49.pdf>> accessed 4 November 2022

<sup>24</sup> <https://www.sciencedirect.com/science/article/pii/S0313592620304574>

Thailand where VAT is the main source of income for the government. And VAT reduction effectiveness as an incentive gradually declines<sup>25</sup> when the temporary policy is extended. One of the most incentivizing aspects of a temporary policy is its limited duration, this results in the consumers' willingness to buy more as they know that when the policy ends the prices will most likely increase. If the 'limited' characteristic is removed, the policy will be less incentivizing.

This is especially severe in Thailand, where the VAT reduction policy has been in force for more than two decades, since B.E. 2542 (1999). Nowadays, people have already become used to the 7 percent VAT rate. Many of us, the author included, have been using this tax rate their whole life. This results in the perception of the tax rate as 'normal' rather than 'discounted'. The normalization of the reduced VAT rate results in the policy losing its status as an incentive. Thus, the benefit gained from VAT reduction is significantly reduced and the losses have become a deadweight loss.

In the author's opinion, Thailand's VAT reduction policy is not suitable for our situation because of the prolonged use which reduces the gains from the policy and the significant loss in revenue that it causes.

### **Suggestion**

VAT reduction is a useful tax incentive if it is correctly implemented. It is fast acting and the government does not need to pull money from its pocket when adopting this policy.

So, the author suggests that Thailand's government may consider not extending the policy in year B.E. 2566 (2023), after the current royal decree expires. As examined previously, Thai's VAT collection structure has already exempted several transactions such as transactions of agriculture and animal products, health services, public transportation, and education. These exemptions have already covered most of the necessity spending for the people. So, the increase of 3 percent rate will not be unbearable.

However, if the policy makers deem that the VAT rate of 7 percent is the most suitable rate for Thailand. Then, the author suggests that the government officially reduce the VAT rate from 10 to 7 percent. This will make the policy more certain as the consumers, business operators, and investors will not have to wonder every two years whether the VAT reduction policy will be extended or not. This will help improve Thai's tax law to be more in accordance with the good tax theory by Adam Smith.

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<sup>25</sup> Sleeman, C. (2014), 'Using a Temporary Indirect Tax Cut as a Fiscal Stimulus: Evidence from the UK', IFS Working Paper, W14/16, Institute for Fiscal Studies.

In addition, the author believes that Thailand has to improve its efficiency in collecting the income tax. Currently, Thailand is depending on VAT too much. Even though researches<sup>26</sup> have indicated that VAT is to a certain extent in direct variation to the household's income as the more they have the more they will spend. It is still not as accurate as income tax. Thus, the improvement of income tax collection will be more beneficial to a substantial and fair collection of revenue in the longer run.

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<sup>26</sup> ชัยสิทธิ์ อนุชิตวงศ์, 'การกระจายของภาระภาษีทางอ้อม' [2013] 5(11) โครงการ “การปฏิรูปเศรษฐกิจเพื่อความเป็นธรรมในสังคม” <[https://tdri.or.th/wp-content/uploads/2013/05/A151\\_Chapter11.pdf](https://tdri.or.th/wp-content/uploads/2013/05/A151_Chapter11.pdf)> accessed 4 November 2022