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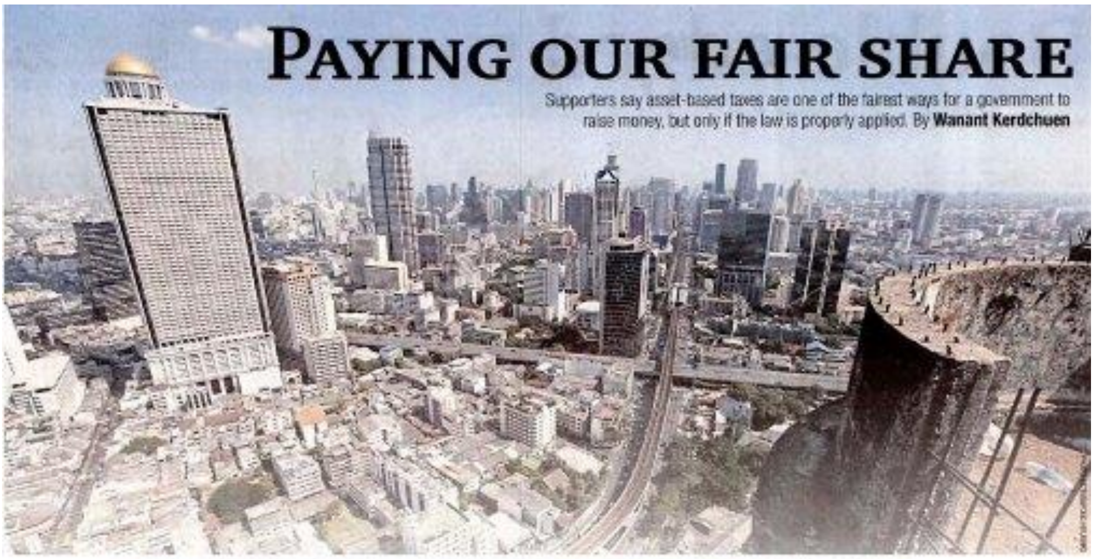

PAYING OUR FAIR SHARE

Supporters say asset-based taxes are one of the fairest ways for a government to raise money, but only if the law is properly applied. By **Wanant Kerdchuen**

• Thailand's latest attempt to introduce a Land and Building Tax has stalled amid a public outcry that it represents too much of a burden at a time when the economy is weak.

While Prime Minister Prayut Chan-o-cha has declared the tax off the table "indefinitely", Finance Minister Sommai Phasee insists that a property tax is essential if the government wants to have enough money to deliver all the services the public demands.

Mr Sommai's contention is backed by many experts and economists who say an asset-based tax is the most universal and equitable method, and is in line with the approach used in most countries in Asia.

Advocates see the tax as helping to curb speculation, with benefits accruing to the economy as speculators will have an incentive to sell unused land and buildings and put them to productive use. However, critics argue that the tax would burden too many people; some even call it "the nation's rental fees".

Controversy arises because the tax would have a direct impact on owners of residential property, something that does not exist under the old House and Land Tax Act. The government says the new tax would help to reduce disparities and increase the national budget, which would be distributed to local administrations for development.

"The main reason for the opposition is that people don't see immediate benefits, but they only see money flying out of their pockets," says Somboon Weeranwutiwong, a tax and legal consultant at PricewaterhouseCoopers (PwC) Thailand.

Supporters of the tax believe it would discourage the lengthy possession of unused land that produces no economic benefits.

"[The tax] will certainly affect speculators, which I consider a good thing because it's the most important objective of this law. Actually, this is the way it should be because there shouldn't be too much purchased land left unused," says Somchai Jitsuchon, research director at the Thailand Development Research Institute (TDRI).

Under the now-shelved proposal by the military-installed government, land and building tax would be waived for residences with an appraised price of no more than 1.5 million baht after deductions for depreciation.

Houses with an appraised value of between 1.5 and 5 million baht would be taxed at 50% of the effective collection rate, while property worth more than 5 million would be taxed at 100% of the effective rate.

The proposed maximum rates were 0.25% for land for agricultural use, 0.5% for residential use and 2% for commercial use and unused or vacant land. For vacant land, the effective tax rate would be doubled every three years, not exceeding a maximum of 2% of the appraised value after depreciation.

Mr Somboon of PwC said one concern was that the exempt value of 1.5 million baht was unrealistically low; most homes these days are worth more than that amount, so few property owners would be spared.

The Finance Ministry hinted that the exemption could be increased to 2.5 million baht for residences in Greater Bangkok. As well, it said, if the residence was the owner's first and only house, there would be an exemption.

Mr Somchai of the TDRI maintains that people who are capable of owning up to 1.5 million baht in assets should not be considered low-income and the tax should not be a big burden.

The real estate services group CBRE Thailand, meanwhile, suggests that the tax on a registered residence should be as low as possible, and that taxes should be waived for first homes valued below 10 million baht.

Under the original plan, and pending approval by the National Legislative Assembly, the tax was to take effect in 2017 after the Treasury Department completed appraisals of 20 million land plots. It would replace the local development tax and the house and land tax imposed since 1932, which have been criticised as regressive since they are based on outdated appraisal prices and have many waivers.

'NOT NEW, JUST EXPANDED'

"The Land and Building Tax Act is not an entirely new law. It is a combined revision of the old house and land tax and local development tax in order to improve tax calculation based on the value of assets," said Mr Somboon.

The old house and land tax was 12.5% of annual values calculated in terms of how properties are utilised for commercial and industrial purposes. Appraisals depend solely on the discretion of government officers.

"The new tax will not cause much impact on owners of commercial and industrial properties because they have long been subject to the old 12.5% house and land tax. The newly proposed rate for commercial property is only 2%," said Mr Somboon.

Despite the lower tax rates in the new proposal, the total amount of tax collected would be much higher because the taxpayer base would be expanded to cover residential units.

Major residential developers supported the new proposals. They believe their business will be less affected by the proposed taxes as their units are priced on a cost-plus basis, and thus any cost to be incurred is likely to be added to the sale price, according to a recent report by Nathavut Srivaruchiwong of Deutsche Tisco Investment Advisory.

As well, he said, developers with large inventories for sale or those developing pre-built units believe that since their operations are for commercial purposes, they are likely to be tax-deductible. The tax burden could then be pushed to the buyers.

Srettha Thavisin, the president of Sansiri Plc, one of Thailand's largest real estate developers, sees the tax as fair in terms of competition as it would be applied to all developers, forcing each to adapt.

"Tax should be collected from business activity rather than from homeowners. I encourage the government to collect high taxes from business and inheritances," he said, adding that buying a house is an investment that has a significant multiplier effect. Once the house is purchased, owners buy decorations and furniture which stimulates business and drives the economy.

"Property tax rates should also be at a level that will not discourage investment in property and decelerate the growth of the property market, which in the end would affect the growth of the economy," said Aliwassa Pathnadabutr, the managing director of CBRE Thailand.

"I think they should use the tax for vast tracts of land ... say hundreds of rai held by rich people who have bought a lot of land that they have not made any use of"

PRASIT BOONCHUEY
Thai Rice Farmers Association

The important issue, she said, would be to ensure that the new money raised would be well spent on infrastructure to drive the country's growth and competitiveness.

"Property developers can also benefit from this tax because people are likely to be incentivised to sell off their land to get rid of the tax burden, leaving more land available for development," said Mr Somchai of the TDRI. "It could be faster and easier for developers to acquire those land assets, perhaps at cheaper prices."

However, Mr Srettha disagrees, saying that wealthy landowners with large holdings can afford the tax and may not be so desperate to sell.

"We do not expect that there will be an overnight change in the amount of property being offered for sale when these new taxes are introduced," said Ms Aliwassa.

Most industrial property owners, meanwhile, expected to see no impact because many operate in tax-free zones under investment promotion, the Tisco report said.

'NO MORE BURDEN'

The biggest impact, then, may end up on the lower-income population, especially those who own high-value property assets but have low incomes, or those who possess property that doesn't generate any revenue.

"The likely long-term effect is that more asset rich but cash-poor property owners will have to sell part of their property holdings," Ms Aliwassa said.

Where rental activity is concerned, landowners are likely to push the tax burden onto their tenants by increasing rents. Most rice farming in Thailand is done on rented land, which makes the tax a highly sensitive issue.

Prasit Boonchuey, chairman of the Thai Rice Farmers Association, agrees with taxing unused land to help the state earn more income, but opposes taxing land for agricultural use.

"I think they should use the tax for vast tracts of land ... say hundreds of rai held by rich people who have bought a lot of land that they have not made any use of," he told *Asia Focus*.

Nationwide, are around 61 million rai of land are owned or rented by 3.7 million households of farmers.

"Farmers are now living in bad conditions partly caused by falling crop prices and uncontrollable effects of natural disasters. If agricultural lands are taxed, their living conditions will be worse," Mr Prasit said.

Most Thai farmers, he pointed out, rent their land, so it is crucial to figure out how to avoid impacts if the land is taxed and landlords raise rental rates.

WATCH THE LOOPHOLES

There is also concern that multiple conditions for exemptions and calculation of tax rates will result in loopholes that big landowners can exploit. People could create cosmetic, fraudulent purposes for land use to escape having to pay.

"If people plant several banana trees in their backyard, is that considered agricultural use?" Mr Somboon asked rhetorically.

As for appraising land values, the Treasury Department has set median prices which might help close loopholes to a certain extent, said Mr Somchai of the TDRI.

However, when it comes to appraising building values, "there are not many standards. It still depends on the discretion of government officers and some of them are inexperienced in evaluating building values", he said.

"This creates loopholes and a property owner could hand a payoff under the table in order to convince government officers to appraise their property at a low rate, and thus pay a lower tax."

(Additional reporting by Tanyatorn Tongwaranan and Nareerat Wiriyapong)