

Financing Social Protection through General Tax Revenues, Social Security Contributions and Formalisation in Thailand



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Foreword

The OECD Centre for Tax Policy and Administration and the OECD Development Centre are collaborating on a project to explore solutions for better financing of social protection through general taxation, social contributions and the contribution of the informal sector in low- and middle-income countries. This report is part of this project, funded by the Swedish International Development Cooperation Agency (Sida).

The report was led by Gioia de Melo and written jointly by Sabine Laudage Teles, Antoine Cazals, Gioia de Melo, Céline Colin and Michaël Sicsic, economists at the OECD Centre for Tax Policy and Administration, and Pablo Suárez Robles and Johan van der Ploeg, economists at the OECD Development Centre, under the supervision and guidance provided by Bert Brys, Head of the Country Tax Policy Unit at the Tax Policy and Statistics Division of the OECD Centre for Tax Policy and Administration. At the OECD Centre for Tax Policy and Administration, the report was prepared under the leadership of the Director, Manal Corwin, the Deputy Director, Ben Dickinson and the Head of the Tax Policy and Statistics Division, Kurt Van Dender. At the OECD Development Centre, the report was produced under the supervision of the Director, Ragnheiður Elín Árnadóttir, the Head of the Inclusive Development and Partnerships Division, Bathylle Missika, and the Head of the Social Cohesion Unit, Alexandre Kolev.

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Abbreviations and acronyms

ADB	Asian Development Bank
ALMP	Active labour market programmes
AW	Average wage
BOI	Board of Investment
BP	Best practice
CIAT	Inter-American Center of Tax Administrations
CIT	Corporate income tax
CO ₂	Carbon dioxide
CSBS	Civil Servant Benefits Scheme
CSG	Child Support Grant
CSMBS	Civil Servant Medical Benefit Scheme
CSPS	Civil Servant Pension Scheme
DA	Disability Allowance
DB	Defined-benefit
DC	Defined-contribution
EAP	East Asia and Pacific
EATR	Effective average tax rate
EEF	Equitable Education Fund
ETR	Effective tax rate
ETS	Emission Trading Systems
EU	European Union
GDP	Gross domestic product
GMT	Global Minimum Tax
GPF	Government Pension Fund

HIC	High-income countries
IBFD	International Bureau of Fiscal Documentation
IBTI	Income-based tax incentives
IES	Informal Employment Survey
IIR	Income Inclusion Rule
ILO	International Labour Organization
IMF	International Monetary Fund
LIC	Low-income countries
LMIC	Lower-middle-income countries
LPG	Liquified petroleum gas
MNE	Multinational enterprise
MSDHS	Ministry of Social Development and Human Security
MTEF	Medium-Term Expenditure Framework
MTFF	Medium-Term Fiscal Framework
NCSWP	National Commission on Social Welfare Promotion
NESDC	National Economic and Social Development Council
NHSO	National Health Security Office
NSF	National Savings Fund
OAA	Old-Age Allowance
PIT	Personal income tax
QDMTT	Qualified Domestic Minimum Top-Up Tax
R&D	Research and development
SBIE	Substance-based income exclusion
SBT	Specific business tax
SDG	Sustainable Development Goal
SEAP	Southeast Asia and the Pacific
SEEBs	State Enterprises Employees' Benefits Scheme
SES	Socio-Economic Survey
SEZ	Special economic zone
SMEs	Small and medium-sized enterprises
SSBs	Sugar-sweetened beverages

SSC	Social security contributions
SSF	Social Security Fund
SSO	Social Security Office
SWC	State Welfare Card
UCT	Unconditional cash transfer
UHCS	Universal Health Coverage Scheme
UMIC	Upper-middle-income countries
UNICEF	United Nations Children's Fund
UTPR	Undertaxed Profits Rule
VAT	Value Added Tax
WCF	Workmen's Compensation Fund
WHO	World Health Organization
WIEGO	Women in Informal Employment: Globalizing and Organizing

Executive summary

Thailand has made significant progress in expanding its social protection system in recent years, but there is scope to further expand coverage and increase benefit levels. Through policies that further develop the social protection system, Thailand's 20-year National Strategy (2018-2037) aims to strengthen social cohesion within the country. Significant progress has been made since the National Strategy was adopted. While Thailand has achieved near-universal healthcare coverage, there remains significant scope to expand other areas of social protection and improve benefit levels. Some 61% of the population in Thailand is covered by at least one social protection programme other than healthcare, with women benefiting from greater coverage (63%) than men (58%). However, spending on social protection (excluding healthcare) is only 2.1% of gross domestic product (GDP), which remains low in international comparison (the regional average for Asia and the Pacific reaches 8%). Moreover, non-contributory cash transfer programmes for children, people with a disability, and low-income households do not reach all eligible households. This is partly due to challenges in means-testing the eligibility of cash transfers. Cash transfers are also low, and their value has eroded over time due to a lack of indexation for inflation.

The high prevalence of informal work poses significant challenges to financing social protection. Around half of the labour force works in the informal economy – women being slightly less exposed than men (50% vs 53%) – and has no access to social insurance, with most informal workers being self-employed. Uninsured workers depend on social assistance programmes to reach minimum levels of social protection, but these programmes fail to prevent people from falling into poverty or allow growing out of it. However, not all uninsured self-employed workers are poor, and they may have the financial capacity to pay taxes and contribute to the social protection system. The self-employed can participate voluntarily in saving schemes (Article 40 and the National Savings Fund) that provide social protection, but participation in these schemes remains low. Further, the schemes provide low levels of social protection. These low participation rates can be attributed to a combination of factors, including individuals' myopia, unappealing benefits and a lack of trust in the government's management of long-term savings.

The ageing of the population will require higher levels of social assistance spending. In the coming decades, Thailand is expected to experience a sharp increase in age-related public expenditure on pensions and related cash benefits, as well as healthcare, due to the rapid ageing of the population.

Additional public spending requires increasing Thailand's tax-to-GDP ratio, which could be reached by reinforcing the link between economic growth and tax revenues. In 2023, Thailand's tax-to-GDP ratio was 17.1% of GDP, which is low by international comparison. Tax revenue growth has lagged behind GDP growth, contributing to a downward trend in the tax-to-GDP ratio over the past decade. This low "buoyancy" of the tax system is caused by various factors, such as the presence of generous profit-based tax incentives, economic growth that occurs in sectors that pay little tax, and weak tax enforcement. By strengthening the link between economic growth and the growth in tax revenues, Thailand could raise more tax revenues without drastically increasing its statutory tax rates. This could be an important strategy to finance public spending in the future, including social assistance spending.

Raising more tax revenues will require reform across a wide range of direct and indirect taxes. There is scope to increase the standard value added tax (VAT) rate (currently at 7%) and to broaden the

VAT base. Low-income households could be compensated for their additional VAT liability through the expansion of social assistance programmes. In addition, the VAT registration threshold could be lowered once the VAT administration has the capacity to audit an increasing number of firms, and measures could be introduced to increase VAT compliance leading to increased revenue. Publishing a detailed tax expenditure report and assessing the cost-effectiveness of tax expenditures and tax incentives would reveal the scope for broadening the tax base. The role of the personal income tax could be strengthened by reforming generous tax allowances that narrow the tax base. Further, the dividend withholding tax rate could be increased. Although Thailand generates substantial revenue from excise taxes, there is scope to improve the design of health excise taxes, which would also encourage individuals to adopt a healthier lifestyle. In addition, fossil fuel subsidies could be reduced, and the recently introduced carbon tax could be increased over time.

Revenues from social insurance contributions are low and compromise the financial sustainability of the Social Security Fund. Social security contributions account for only 0.9% of GDP, which is low by international standards. In the short term, the ceiling on social security contributions under Article 33 could be raised to increase the contributions from higher incomes. To reduce the government subsidy to the fund, the government contribution (2.75% rate) for the top quintile of private sector employees under Article 33 could be replaced by an increased employer contribution for these workers. In addition, the parameters of the pension system may need to be revised to enhance benefit adequacy and maintain financial sustainability. Over time, economic growth and the formalisation of a larger share of the economy are preconditions to increase social protection spending.

Introducing a presumptive tax regime that incentivises the formalisation of unincorporated micro-enterprises and their workers could increase social insurance coverage. Given the limited effectiveness of voluntary contributory schemes (e.g. Article 40) in expanding the coverage of social protection to the self-employed, Thailand could introduce a simplified tax regime that is compulsory and includes a presumptive payment for social protection. Such a presumptive tax regime targeted at unincorporated small businesses would simplify tax compliance compared to the tax system, reduce tax liabilities and provide more attractive social protection benefits than under the current system. This regime would enable uncovered self-employed workers and their employees to access social insurance. The presumptive tax regime could be designed as a single tax levied on business turnover that substitutes for VAT, income tax and social security contributions. While registration would be compulsory for most companies, registration could remain voluntary for the micro-businesses that could also opt to contribute under Article 40. Over time, when the tax administration's enforcement capacity increases, social insurance contributions could also become compulsory for these micro-businesses. The presumptive tax regime would not be accessible to higher income earners, e.g. among lawyers, doctors, architects and information technology experts, that are able to pay tax under the standard tax system.

Box 1. Policy recommendations

Main social protection policy recommendations

- Increase the benefit levels of social assistance programmes and index benefits to inflation.
- Increase the coverage of the Child Support Grant by removing the means test and revise the eligibility criteria of the Disability Allowance.
- Replace the State Welfare Card voucher system with an unconditional cash transfer.
- Reduce fragmentation and overlap among social assistance programmes.

Main tax policy recommendations

- Increase the standard VAT rate and broaden the base by eliminating VAT exemptions while providing compensation to the most vulnerable.
- Lower the VAT registration threshold once the tax administration has the necessary capacity to monitor an increasing number of firms.
- Increase the ceiling for contributions under Article 33 of the Social Security Fund.
- Broaden the personal income tax base by reducing the general and the single taxpayer allowances.
- Remove the government contribution (2.75%) for the top quintile of private sector employees (Article 33) and replace it by increasing the employer contribution for these workers.
- Reform corporate income tax incentives informed by tax revenue forgone estimates and cost-benefit analysis of the tax incentives that have a high cost in terms of revenue foregone. Avoid profit-based tax incentives.
- Consider increasing the withholding tax rate on dividends.
- Gradually increase the recently introduced carbon tax and phase out the remaining fossil fuel subsidies.
- Strengthen the design of tobacco, alcohol and sugar-sweetened beverages taxes.
- Introduce a presumptive tax regime for small unincorporated businesses that provides access to social insurance benefits that are more attractive than those provided under Article 40.
- Maintain voluntary saving schemes for micro-businesses that can opt out of the presumptive tax regime.
- Make social security contributions compulsory for unincorporated businesses that pay tax under the presumptive tax regime or the standard tax system.

1

Strengthening social assistance in Thailand

This chapter seeks to highlight potential improvements to social assistance in Thailand over the short and medium term. It first discusses the country's challenges in terms of social protection coverage, benefit adequacy and population ageing. It then provides an overview of the main social assistance programmes and highlights areas for improvement. Finally, the chapter presents reform scenarios to improve social assistance coverage and benefit adequacy and simulates their costs over the next five years.

Social protection spending in Thailand is low by international standards

In 2023, social protection expenditure (excluding healthcare) reached 2.1% of Thailand's gross domestic product (GDP), significantly below the Asia and the Pacific regional average of 8% (Figure 1.1). Thailand's social assistance expenditure stands at 0.8% of GDP, which is lower than the East Asia and Pacific (EAP) regional average of 1% and significantly below the upper-middle-income countries (UMIC) average of 1.9% and the high-income countries (HIC) average of 1.5% of GDP (Figure 1.2). Expenditure in contributory pension schemes amounts to 1.9% of GDP in Thailand, which is similar to the regional average for the EAP region (2%) but significantly below the UMIC average (4%) and the HIC average (4.4.%) (Figure 1.2). Health expenditure is also comparatively low, with 1.7% of GDP allocated to health spending. This expenditure falls short of both regional and global averages and is below the health expenditure level for UMICs, which allocate 3.4% of GDP to health.

While Thailand's social protection coverage is relatively high compared to peer countries, a share of the population remains uncovered

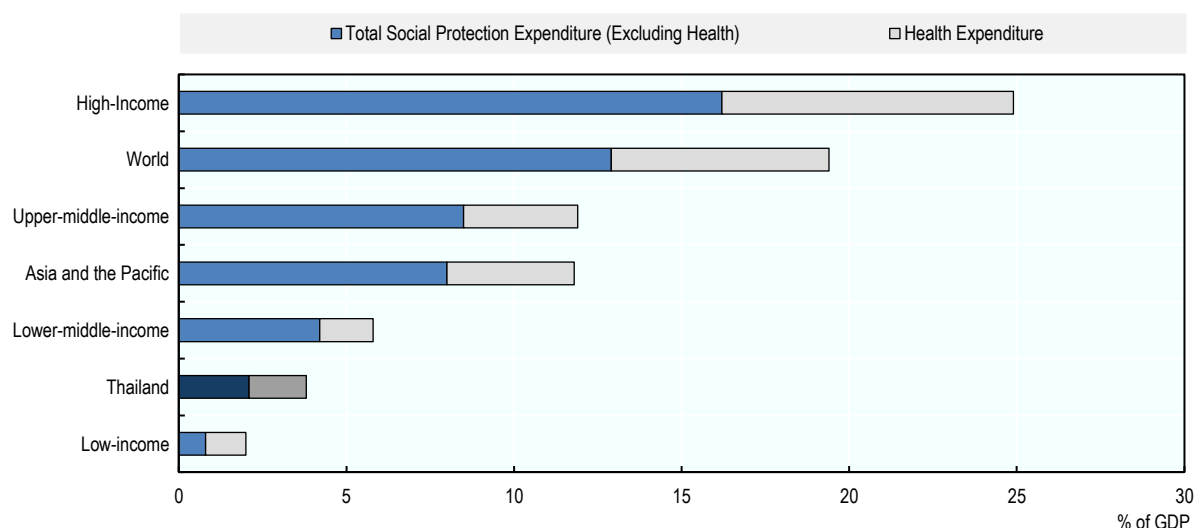
As many as 61% of individuals in Thailand are covered by at least one social protection programme (excluding healthcare), which largely exceeds the average for Southeast Asia and the Pacific (SEAP) (48%) (Figure 1.3). Thai women have greater social protection coverage (63%) than men (58%). While both women and men have similar coverage under social insurance schemes (29%), women have higher coverage rates in social assistance programmes (39% compared to 33%). This chapter relies, unless otherwise stated, on the last Socio-Economic Survey (SES) survey conducted in 2023.

The coverage through non-contributory social assistance exceeds the coverage through contributory social insurance. In 2023, 29% of the Thai population was covered by at least one social insurance programme and 36.3% by at least one social assistance cash benefit programme (Figure 1.4). Thailand's social insurance coverage falls short of the UMIC average (50%) and top SEAP performers like Singapore (74%) and Japan (82%), although it far exceeds the regional average (19.4%). The gap with HICs (70%) is much wider. By contrast, Thailand's social assistance coverage exceeds (36%) both UMIC and SEAP averages (respectively, 21% and 28%). If non-contributory health programmes are included, social assistance in Thailand nears universal coverage, with the Universal Health Coverage Scheme (UHCS) reaching 46.5 million people, or 73% of the total population, and 98.2% of the target population, i.e. those not covered by other health insurance schemes.

While access to cash benefits is almost universal for the elderly, coverage is more limited for families with children and people with disabilities. The presence of children and, to a lesser extent, elders significantly increases the prevalence of poverty among households (15.8% and 8.9%, respectively, compared to 6.7% for households without children or elders). This highlights the importance of child and old-age benefits in combating poverty. In 2023, as many as 97% of individuals aged 60 or older received an old-age pension (Figure 1.5). However, this overall figure masks a wide gap between non-contributory schemes, which cover 89% of the elderly, and contributory schemes, which cover just 19%. In other words, Thailand's universal social pension helps bridge the coverage gap of contributory pensions. Only 36% of the labour force actively contributes to a pension scheme, which exceeds the SEAP average (31%) but lags far behind the UMIC average (73%). As a result, a significant fraction of workers is excluded from contributory schemes and will not receive a pension from a contributory scheme at old age.

Figure 1.1. Social protection spending as a share of GDP in Thailand and selected countries and regions, 2023

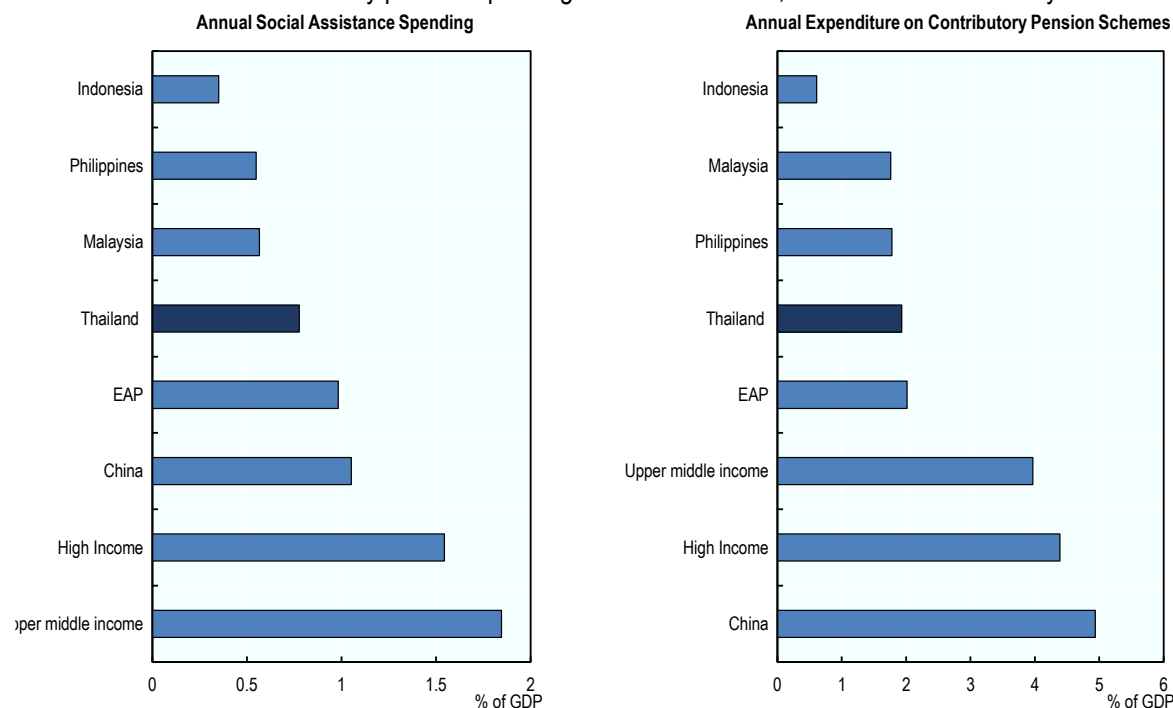
Social protection spending as a share of GDP, 2023 or latest available year



Source: Budget Bureau data for Thailand and ILO (2024^[2]), *World Social Protection Report 2024-26: Universal Social Protection for Climate Action and a Just Transition*, <https://www.ilo.org/publications/flagship-reports/world-social-protection-report-2024-26-universal-social-protection-climate>.

Figure 1.2. Social assistance and contributory pension spending in Thailand and selected countries

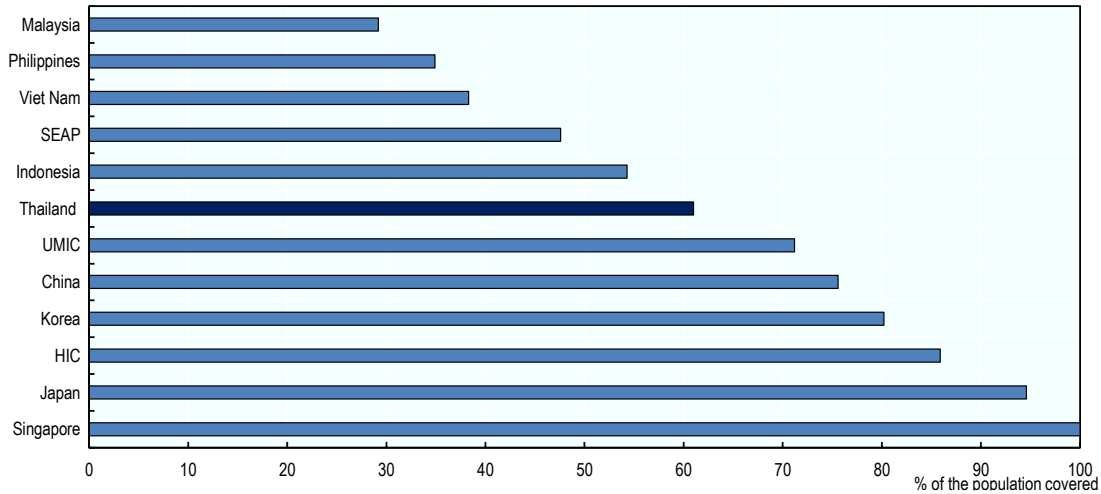
Social assistance and contributory pension spending as a share of GDP, 2021 or latest available year



Note: EAP = East Asia and Pacific. For Thailand, data on social assistance are from 2018-20 and contributory pension schemes from 2019-21.
Source: World Bank (2024^[3]), *ASPIRE Database*, <https://www.worldbank.org/en/data/datatopics/aspire/indicator/social-expenditure>.

Figure 1.3. Social protection coverage in Thailand and selected countries, 2023

Percentage of population covered by at least one social protection programme in Thailand and benchmarking countries, 2023 or latest available year

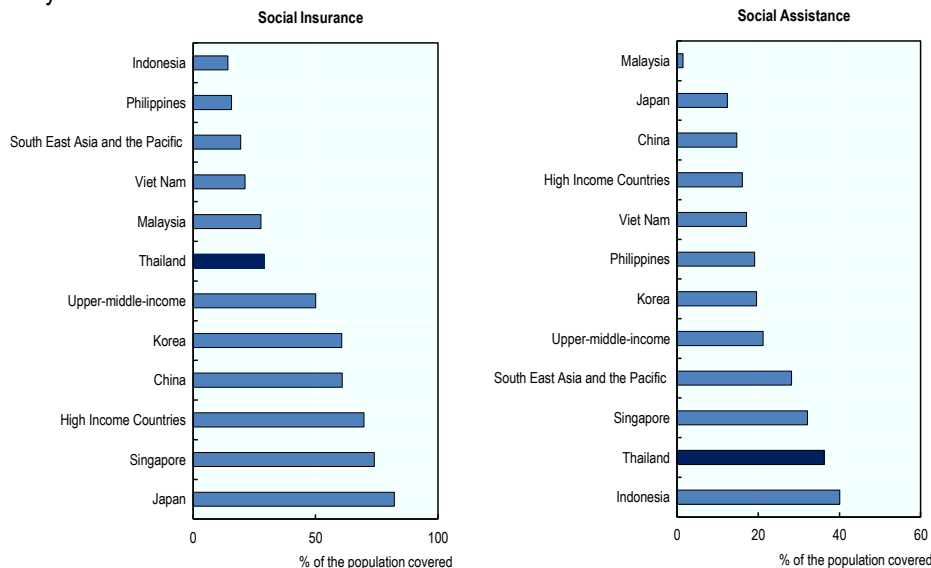


Note: For Thailand, social insurance includes the Social Security Fund (SSF) Articles 33, 39 and 40, the Workmen's Compensation Fund (WCF), the Civil Servant Benefits Scheme (CSBS) and the State Enterprises Employees' Benefits Scheme (SEEBs). In turn, social assistance includes the Child Support Grant (CSG), Old-Age Allowance (OAA), Disability Allowance (DA), State Welfare Card (SWC), and government scholarships (Equitable Education Fund [EEF]). To allow comparison with ILO estimates for benchmarking countries and regions, the Universal Health Coverage Scheme (UHCS) and other health insurance schemes are excluded, and only social protection cash benefits are included.

Source: Authors' calculations based on 2023 SES data for Thailand and ILO (2024^[2]), *World Social Protection Report 2024-26: Universal Social Protection for Climate Action and a Just Transition*, <https://www.ilo.org/publications/flagship-reports/world-social-protection-report-2024-26-universal-social-protection-climate> for peer countries and regions.

Figure 1.4. Social insurance and social assistance coverage in Thailand and selected countries, 2023

Social insurance and social assistance coverage (excluding health) in Thailand and selected countries, in %, 2023 or latest available year

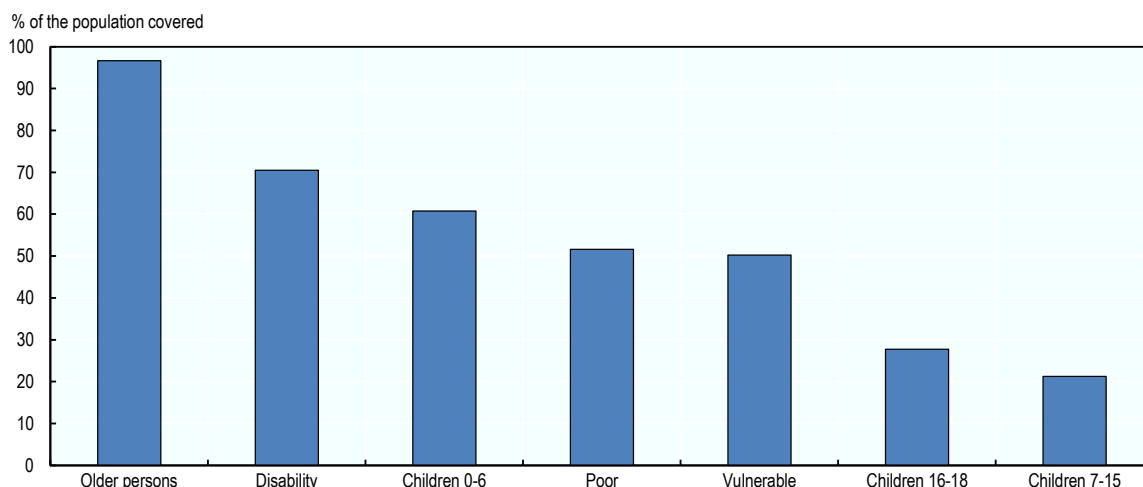


Note: For Thailand, social insurance includes the SSF Articles 33, 39 and 40, WCF, CSBS and SEEBs. Social assistance includes the CSG, OAA, DA, SWC, and government scholarships (EEF). To allow comparison with ILO estimates for benchmarking countries and regions, the UHCS and other health insurance schemes are excluded. For social assistance, only cash benefits are included.

Source: Authors' calculations based on 2023 SES data for Thailand, and ILO (2024^[2]), *World Social Protection Report 2024-26: Universal Social Protection for Climate Action and a Just Transition*, <https://www.ilo.org/publications/flagship-reports/world-social-protection-report-2024-26-universal-social-protection-climate> for peer countries and regions.

Figure 1.5. Social protection coverage in Thailand for different population groups, 2023

Percentage of social protection coverage in Thailand for different population groups, 2023



Note: Older persons = individuals aged at least 60. Vulnerable persons = individuals not covered by social insurance, as defined by ILO (2024^[2]). In Thailand, individuals are eligible for old-age benefits – contributory or non-contributory – starting at age 60, except workers insured under SSF Articles 33 and 39 whose official retirement age is 55.

Source: Authors' calculations based on 2023 SES data.

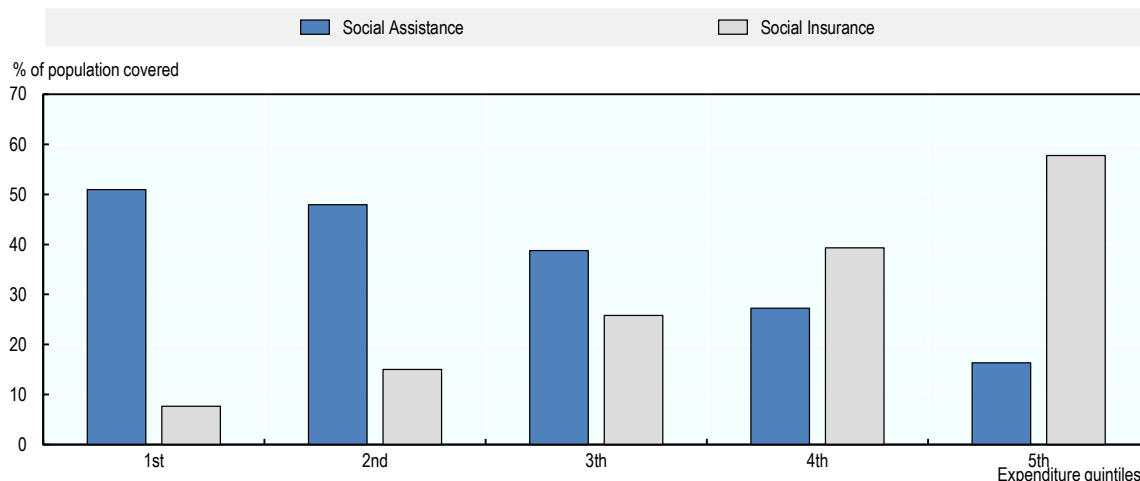
Thailand provides cash benefits for young children, while older children primarily receive in-kind benefits. While 61% of children aged 0-6 have access to at least one social protection cash benefit (contributory or non-contributory), coverage plummets to 21% among children aged 7-15 and 28% among children aged 16-18. This decline in cash benefit coverage is attributed to the increased prevalence of in-kind benefits. In fact, after age 6, children typically enter school and become eligible for in-kind benefit programmes such as free school lunches, tuition fees, textbooks, learning materials, school uniforms and free school milk (the latter only applies for children up to primary school). There are also conditional cash transfers targeted at poor households with school-enrolled children, some of which might not be adequately captured under the SES survey due to their low coverage.

Social assistance coverage gaps persist among other population groups. Some 71% of persons with disabilities, are covered under the Disability Allowance (DA). While this rate significantly exceeds the SEAP and UMIC averages (respectively, 30.4% and 50%), potential remains to extend coverage further. Moreover, social assistance cash benefits cover less than half of the vulnerable population –defined by the International Labour Organization (ILO) as those not covered by social insurance, though they may be covered by private insurance – with women better covered (50%) than men (43%). Nonetheless, it should be noted that this coverage is relatively high by regional standards.

Many individuals remain uncovered, both in the lowest-income and middle-income households. Only half of people experiencing poverty are covered by at least one social assistance programme (Figure 1.6), with higher coverage for women (55%) than men (48%). Moreover, the SES data show that a significant share of the population, across all deciles, is neither covered by social insurance nor social assistance (Figure 1.6). At the third quintile of the consumption expenditure distribution, slightly more than 20% are covered by social insurance and less than 40% by social assistance. This means that around 40% of middle-income households are not covered by social protection. The percentage of uncovered individuals is similar to that of individuals in the bottom quintile. Moreover, less than 60% of individuals living in top-quintile households are covered by social insurance.

Figure 1.6. Social assistance and social insurance coverage in Thailand according to household consumption expenditure, 2023

Percentage of the population covered by at least one social assistance or insurance programme in Thailand, by quintile of the household consumption expenditure, 2023



Note: For Thailand, social insurance includes the SSF Articles 33, 39 and 40, WCF, CSBS and SEEBS. Social assistance includes the CSG, OAA, DA, SWC, and government scholarships (EEF).

Source: Authors' calculations based on 2023 SES data.

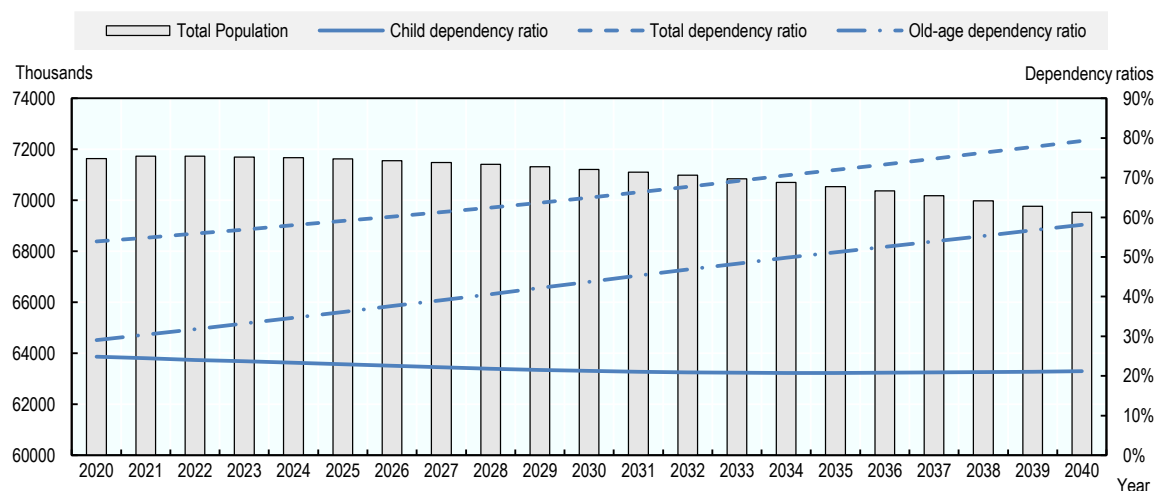
Social insurance is well established for most salaried workers but fails to effectively cover the self-employed. Only one-third of the Thai population is covered by a social insurance scheme. Existing contributory schemes provide relatively comprehensive benefit entitlements to civil servants and formal private sector employees. However, self-employed workers are not obligated to contribute to the social protection system. Instead, the self-employed can choose to register for voluntary saving schemes that provide social insurance, but the coverage remains low (see Chapter 4 for an in-depth discussion). Moreover, the social security system, either *de jure* or *de facto*, insufficiently addresses the needs of certain groups of workers, including stateless persons, domestic, migrant, occasional, seasonal and platform workers. The Thai government is aware of this situation and is considering extending social insurance coverage to non-standard forms of employment.

Social protection needs will increase in the coming years

The population is declining in size and rapidly ageing. Thailand's population is estimated to decrease by 2.9% between 2020 and 2040, declining from 71.6 to 69.5 million inhabitants (Figure 1.7). Projections show that the total dependency ratio (the number of dependents – children and elderly – relative to the working-age population) will increase by almost half, from 59% in 2025 to 79% in 2040, driven by the increase in the elderly population. The number of children is expected to decrease by 15% over the period, with the child dependency ratio decreasing from 23% in 2025 to 21% in 2040. By contrast, the old-age dependency ratio is expected to double over the same period, reaching 58% in 2040 (compared to 36% in 2025), with the number of persons aged 60 years or older exceeding the working-age population by 2052.

Figure 1.7. Evolution of population and dependency ratios in Thailand, 2020-40

Projected total population and dependency ratios in %, 2020-40



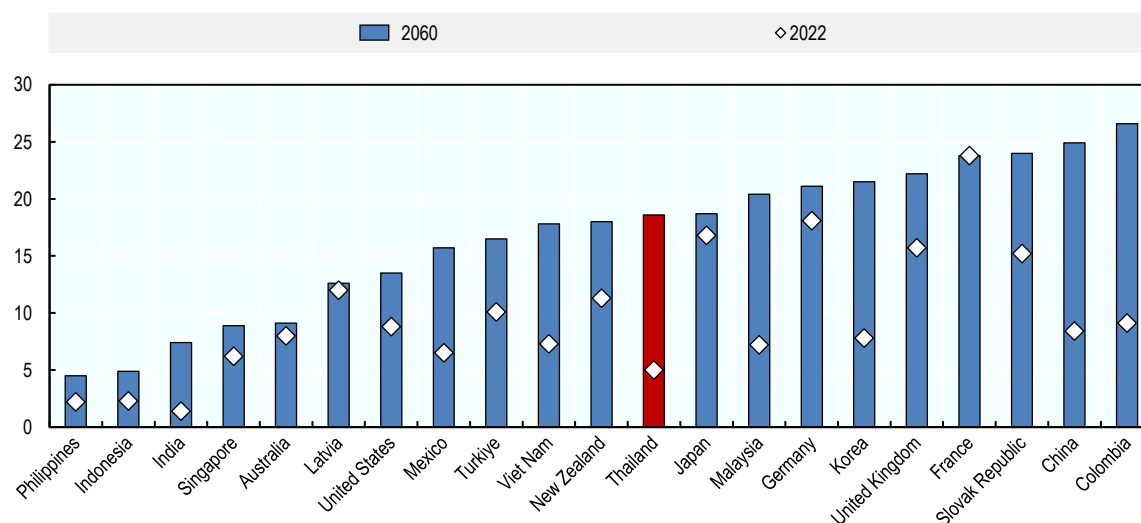
Note: Total population in thousands (left axis). Child dependency ratio (right axis) = number of children (0-14 years old) in percentage of the working-age population (15-59). Old-age dependency ratio (right axis) = number of older persons (60 years or over) in percentage of the working-age population. Total dependency ratio (right axis) = number of children and older persons in percentage of the working-age population.

Source: United Nations (2024^[4]), *World Population Prospects 2024*, <https://www.un.org/development/desa/pd/world-population-prospects-2024>.

Age-related public expenditure in Thailand is expected to rise sharply in the next decades (Figure 1.8). As a result of rapid ageing, pension and healthcare expenditure are projected to rise from 5% of GDP in 2022 to 19% by 2060 (OECD/ERIA, 2025^[5]). Without reforms, general tax revenues will need to rise significantly to finance these additional social protection spending needs. Furthermore, general tax revenues, particularly those from indirect taxes, are likely to decline due to the limited purchasing power of the elderly if the older population has reduced purchasing power.

Figure 1.8. Age-related public expenditures in Thailand and selected countries, 2022 and 2060

Pension and healthcare spending as a percentage of GDP in 2022 and projections for 2060



Source: Adapted from OECD/ERIA (2025^[5]), *Promoting Active Ageing in Southeast Asia*, <https://doi.org/10.1787/22849f38-en>; data from S&P Global (2023^[6]), *Global Aging 2023: The Clock Ticks*, <https://www.maalot.co.il/Publications/TS20230130101316.pdf>.

Thailand provides social assistance programmes throughout the lifecycle

Thailand's social protection landscape encompasses a multitude of programmes that cut across different stages of the lifecycle (Table 1.1). These programmes span healthcare, support for children and families, income replacement during the active age, and old-age assistance. The following sections describe the main social assistance programmes (see 0, Table 1.A.1 for a detailed description).

Table 1.1. Main social protection programmes in Thailand

Mapping of programmes by functional classification using the ILO social protection floor pillars

Classification	Programme	Number of beneficiaries in millions (2019)
Pillar 1: Health		
Healthcare	Universal Health Coverage Scheme	47 522 681
	Social Security Fund (Articles 33 and 39)	12 584 458
	Allowance for HIV/Aids patients	87 683
	Support for HIV/Aids patients and their families	8 271
Pillar 2: Children		
Child allowance	Social Security Fund (Article 33)	1 092 752
	Social Security Fund (Article 39)	279 467
	Child Support Grant	880 893
Education subsidies	15-year Free Education Programme	5 865 217
	EEF Conditional Cash Transfer Programme	949 941
	Lower education empowerment grant	650 001
Nutrition subsidies	Fund for Primary School Lunches Programme	5 459 793
	School Milk Nutrition Grant	5 450 180
Pillar 3: Active age		
Sickness income compensation	Social Security Fund (Article 33)	91 595
	Social Security Fund (Article 39)	330 468
	Social Security Fund (Article 40)	88 976
Unemployment	Social Security Fund (Article 33)	170 455
Disability insurance	Social Security Fund (Article 33)	8 672
	Social Security Fund (Article 39)	7 203
	Social Security Fund (Article 40)	327
Maternity (cash benefit)	Social Security Fund (Article 33)	245 300
	Social Security Fund (Article 39)	48 423
Death/survivors' benefit	Social Security Fund (Article 33)	20 960
	Social Security Fund (Article 39)	9 308
	Social Security Fund (Article 40)	9 331
Poverty	State Welfare Card	8 925 758
	Poverty and Destitute Family Support Grant	140 176
Pillar 4: Old age		
Lump-sum payment	Social Security Fund (Article 33)	256 375
	Social Security Fund (Article 39)	37 519
	Social Security Fund (Article 40)	21 156
Annuity pension	Social Security Fund (Article 33)	181 693
	Social Security Fund (Article 39)	50 040
	Old-Age Allowance	9 093 916
In-kind old-age assistance	Long-term care	1 528 001
	Allowance for abandoned and abused elderly	16 670
	Social welfare development centre for older persons	38 500

Classification	Programme	Number of beneficiaries in millions (2019)
Poverty	Funeral allowance for the elderly	10 402
	Living environment improvement assistance for the elderly	32 002
	State Welfare Card	4 812 265
	Cash assistance for low-income elderly	4 812 265
Other vulnerable groups		
Disability	Disability Allowance	1 973 911
	Ministry of Social Development and Human Security (MSDHS) equipment purchase subsidy	1 297
	Living environment improvement assistance for disabilities	22 092

Source: ILO et al. (2022^[7]), *Thailand Social Protection Diagnostic Review: Social Protection for Migrant Workers and Their Families in Thailand*, <https://publications.iom.int/books/thailand-social-protection-diagnostic-review-social-protection-migrant-workers-and-their>.

Universal Health Coverage Scheme

The coverage of the non-contributory Universal Health Coverage Scheme (UHCS) is high, with 66% of the population enrolled in 2024. Launched in 2002, the UHCS scheme provides a comprehensive package of benefits, including preventive care, treatment, rehabilitation and palliative care, to Thai nationals who are not eligible for healthcare under the Social Security Fund (SSF) or the Civil Servant Medical Benefit Scheme (CSMBS). Access barriers to healthcare persist for some vulnerable groups, including persons with disabilities or individuals living in remote areas. The scheme recently launched a programme to make health services accessible outside of the area where beneficiaries are registered. Beneficiaries of the UHCS enjoy the same benefits as beneficiaries of the social insurance health scheme.

The UHCS is financed by general tax revenue and does not require any copayment from beneficiaries, although beneficiaries can contribute THB 30 on a voluntary basis (as of early July 2025, 1 Thai baht was approximately 0.031 USD). The budget of UHCS has tripled since its inception in 2002 and continues to rise at an annual rate of nearly 3%. In 2022, the budget allocated to the scheme amounted to THB 199 billion in total (THB 141 billion excluding salaries of healthcare providers), equivalent to 1.2% of GDP. According to the International Monetary Fund (2019^[8]), total public health expenditure (including expenditure financed by contributions) is projected to increase from 2.9% of GDP in 2017 to 4% in 2035 and 4.9% in 2060.

Child cash benefits

The means-tested Child Support Grant (CSG), which aims to provide support for children younger than six years old raised in low-income families, faces significant targeting challenges. The CSG provides a monthly cash transfer of THB 600 per child to all families with children up to six whose household income per capita is less than THB 100 000 per year. The National Commission on Social Welfare Promotion (NCSWP) has proposed to expand the CSG to pregnant Thai women from the second trimester of pregnancy onwards, regardless of family income. The Ministry of Social Development and Human Security (MSDHS) is implementing this reform and plans to raise the monthly grant to THB 3 000 for pregnant women. According to the latest available data, the CSG's total expenditure amounted to THB 17.5 billion in 2023, and coverage reached 1.76 million beneficiaries in 2020. The main problem with the CSG is poor targeting, which results in around 30% of eligible children not being covered (UNICEF, 2019^[9]). In contrast, some higher-income households receive the CSG despite not being eligible (see Table 1.2 further below). The MSDHS has undertaken initial efforts to enhance access to the CSG, including developing a mobile application to facilitate enrolment and service delivery.

The Conditional Cash Transfer for Extremely Poor Students, another proxy means-tested programme, also encounters significant targeting errors. The programme targets students between 3 and 17 years old enrolled in schools administered by particular organisations¹. To be eligible, applicants must be students from households with an average monthly income per person not exceeding THB 3 000 and possess a proxy means test score of over 50 points. The proxy means test score assesses household income or poverty status using observable characteristics and socio-economic indicators – such as housing stability, asset ownership, access to basic utilities, and family caregiving responsibilities – rather than relying solely on reported income. The programme targets the 15% poorest households in the country (EEF, 2025^[10]). However, only 13.5% of the eligible population is covered (UNICEF and ILO, 2022^[11]). Since 2024, benefits have increased, and for the 2026 academic year, eligible students will annually receive THB 4 000 when they are enrolled in preschool and THB 7 200 when they are enrolled in primary and lower secondary education of Border Patrol Police (BPP) schools, or THB 4 200 if they are enrolled in other schools. Students from BPP schools also receive an annual cash transfer at the upper-secondary education level that will reach THB 7 200.

State Welfare Card

The effectiveness of the State Welfare Card (SWC) is undermined by inadequate targeting and restrictions that limit the use of the cash transfer to selected shops. The SWC targets Thai citizens aged at least 18 years old who are unemployed or have an annual income below THB 100 000. Additionally, eligible individuals must have no financial assets exceeding THB 100 000 and not own any immovable property. Eligible individuals with an annual income below THB 30 000 receive a voucher of THB 300 per month to purchase consumer goods from Thong Fah Pracharat stores. The benefit is reduced to THB 200 per month for households with an income that ranges from THB 30 000 to THB 100 000. The SWC also provides additional benefits for cooking gas (THB 45 per quarter), for the Bangkok mass transit bus and sky train fares (THB 500 per month), for bus fares (THB 500 per month), and for train fares (THB 500 per month). Like other means-tested social assistance programmes, the SWC suffers significant targeting errors. The SWC was initially planned to be temporary, but the programme has remained, covering 14 million people in 2023. The costs of the SWC are at THB 52.2 billion. Because registration is not conducted on an ongoing basis, individuals who have recently fallen into poverty are excluded. Unlike other major social assistance programmes, the SWC is not administered by the MSDHS but is implemented by the Ministry of Finance. A recent study suggests that the SWC has no significant impact on poverty reduction and is even associated with a decline in food expenditure (Durongkaveroj, 2022^[12]). The limited effectiveness of the vouchers provided under the SWC has been attributed to the restricted range of goods available in eligible stores and prices often higher than elsewhere.

Old-Age Allowance

The Old-Age Allowance (OAA) ensures broad coverage for the elderly, yet the adequacy of its benefits and its financing remain significant policy challenges. The benefit is provided to all the elderly aged 60 or older who are not receiving a regular civil servant pension and are not living in a state care home. Insured individuals under the SSF can receive the OAA in addition to their SSF pension. The benefit is a monthly pension that increases with age: THB 600 for individuals aged 60-69, THB 700 for those aged 70-79, THB 800 for those aged 80-89, and THB 1 000 for those aged 90 and above. The programme benefited 9.1 million elderly citizens in 2019, nearly 82% of those aged 60 and above. Given demographic trends, the number of OAA beneficiaries is expected to increase to more than 16 million by 2040. In 2023, THB 90.2 billion were spent on the OAA. In line with other social assistance programmes, the problem with the OAA lies mainly in the low adequacy of the benefit. A current reform proposal by the NCSWP recommends increasing the benefit levels as follows: THB 700 between 60-69, THB 850 between 70-79, THB 1 000 between 80-89, and THB 1 250 starting from 90 years old.

Disability Allowance

Restrictive eligibility criteria limit the coverage of the Disability Allowance (DA). Thai citizens who hold a valid Disability Identification Card and do not live in a state care home are entitled to a monthly cash transfer of THB 800 if they are adults or THB 1 000 if they are aged under 18. The MSDHS and the NCSWP have recently proposed replacing the current allowance with a flat-rate benefit of THB 1 000 for all beneficiaries regardless of age. While this benefit is theoretically universal, only 70.5% of the people with disabilities receive it due to the restrictive definition of disability applied by the programme, which is based on the total loss of function (Organization et al., 2022^[7]). The total cost of the DA reached THB 19.8 billion in 2023, according to the latest estimates by NESDC.

Thailand faces challenges in reaching targeted populations through means-tested programmes

While the CSG and the SWC are primarily designed to assist the poorest populations, they are susceptible to inclusion errors. While most of the CSG and the SWC beneficiaries belong to the bottom quintiles of the household consumption expenditure distribution, a relatively high proportion of beneficiaries earn income in the higher quintiles (Table 1.2). Notably, 37% of SWC beneficiaries do not belong to the first two quintiles, which are the target population for the SWC.

Table 1.2. Coverage of social assistance programmes by household consumption expenditure quintile in Thailand, 2023

Distribution of beneficiaries across household consumption expenditure quintiles, in %, 2023

Household consumption expenditure quintiles	First	Second	Third	Fourth	Fifth
Child Support Grant (CSG)	40	26	19	11	4
Old-Age Allowance (OAA)	23	25	22	18	12
Disability Allowance (DA)	34	31	19	12	5
State Welfare Card (SWC)	33	30	22	11	4
Universal Health Coverage Scheme (UHCS)	26	24	21	17	12

Source: Authors' calculations based on 2023 SES data.

Beneficiaries of programmes that are not means-tested, such as the OAA and UHCS, exhibit a more uniform distribution across consumption quintiles, as expected. OAA coverage is more evenly distributed, with 23% of beneficiaries in the lowest quintile and 12% in the highest. The UHCS, as a universal programme, shows a more balanced distribution across all consumption expenditure quintiles but a declining coverage in the highest quintile, as wealthier individuals are more likely to be covered by social or private health insurance. The DA reaches 34% of the lowest quintile and diminishes progressively to 5% in the highest quintile. Box 1.1 discusses advantages and disadvantages of universal and targeted benefits.

Errors in targeting means-tested benefits also contribute to the exclusion of the poor from social assistance. As mentioned previously in this chapter, challenges in targeting the poor, particularly in programmes like the CSG and the SWC, contribute to substantial exclusion errors that impact coverage. More specifically, 45% of children eligible for the CSG, 65% of individuals eligible for the SWC, and 30% of persons eligible for the DA do not benefit from these programmes. The number of SWC recipients exceeds the number of people below the national poverty line (Yang, Wang and Dewina, 2020^[13]), which suggests that the exclusion errors are a result of challenges in accurately targeting people experiencing poverty. For the DA, exclusion errors stem from the restrictive definition of disability used to determine eligibility. According to two reports by the United Nations Children's Fund (UNICEF), Thailand's disability protection framework is comprehensive and aligned with international standards, but implementation gaps

persist, particularly in the coverage of children with disabilities and other eligible groups (UNICEF, 2023^[14]; 2019^[15]). The Thai government is gradually addressing these issues by revising the DA eligibility criteria. In addition, the government is improving the welfare database to strengthen targeting, enhance administrative efficiency, improve implementation effectiveness, and increase the adequacy of social protection benefits for those in need.

Box 1.1. Universal versus targeted benefits

Programmes can statistically limit “leakage” to the non-poor by using means tests or proxy means tests, improving cost-effectiveness. However, accurate targeting is hard to achieve in practice, as significant informational constraints, shifting household incomes, and data inaccuracies undermine these methods. From an administrative perspective, targeting can be demanding: collecting and verifying detailed information is often expensive and time-consuming. Some countries have begun using social registries as centralised systems to consolidate the processes of outreach, intake, registration, and needs assessment to evaluate potential eligibility for multiple programmes (Leite et al., 2017^[16]). Nonetheless, on a global scale, income-tested programmes that aim to assist the poorest 25% of the population frequently fall short of their objectives. According to an assessment of 38 programmes implemented in 23 low- and middle-income countries, Bolsa Familia, in Brazil, stood out as the programme with the lowest exclusion error. Even in this case, the means-tested programme does not include 44% of its target population (Kidd and Athias, 2020^[17]).

By contrast, universal categorical targeting relies on easily observable characteristics, such as age, location or demographic groups. Though more costly, universal schemes are the most effective in reaching both their intended recipients and the poorest 20%. Although universal social protection leads to the inclusion of non-poor beneficiaries, it circumvents the complexity of income verification. Thus, it is administratively more feasible, especially in contexts with weak infrastructure and low administrative capacity. Politically, universal or categorical schemes often garner broad public support since they are easier to understand, less likely to create social stigma, and can be viewed as fair and transparent, as everyone within a category is treated equally (Kolev, La and Manfredi, 2023^[18]).

A middle-ground is affluence testing, where instead of specifically targeting the most impoverished individuals, these programmes aim to exclude those who are relatively better off. While these schemes do not perform as effectively as universal programmes, they have significantly fewer exclusion errors than programmes that target only the poorest members of society (Kidd and Athias, 2020^[17]). Such benefits may foster trust in public institutions (Kolev, La and Manfredi, 2023^[18]). Universal social protection programmes have been deployed in 52 low- and middle-income countries, such as Argentina, Mongolia, Nepal and Uganda (Kidd et al., 2020^[19]).

Table 1.3. Pros and cons of different targeting strategies

	Targeting (e.g. means tests, proxy means tests)	Universal or categorical targeting
Pros	- Allows resources to be concentrated on those identified as most in need, potentially improving cost-effectiveness. - Can mitigate fiscal constraints by limiting beneficiaries to the poorest.	- Simpler administration as eligibility is based on easily observable categories (e.g. age or geographic location) rather than detailed income assessments. - Reduces exclusion errors associated with complex targeting methods.
Cons	- Complex administrative and informational requirements increase costs and the risk of errors. - May create social stigma and lead to the exclusion of deserving households due to inaccurate data or changing circumstances.	- Are more expensive. - Granting benefits also to the non-poor reduces overall cost-effectiveness.

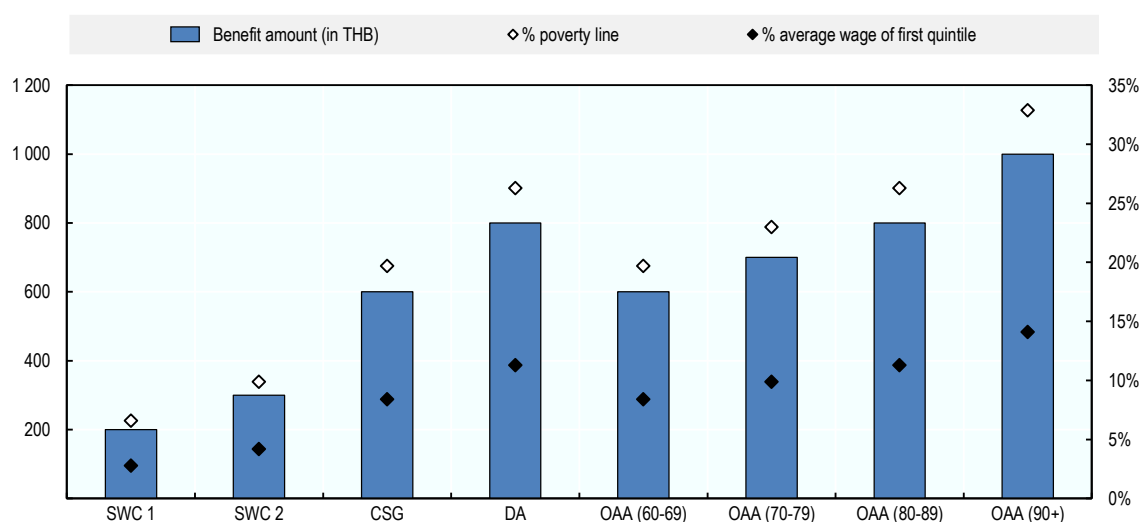
Source: Coady, Grosh and Hoddinott (2004^[20]), *Targeting of Transfers in Developing Countries: Review of Lessons and Experience*, <http://hdl.handle.net/10986/14902>; Schüring and Gassmann (2016^[21]), “The political economy of targeting – a critical review”, <https://doi.org/10.1111/dpr.12185>.

The adequacy of social assistance benefits is low

Cash transfers from social assistance programmes, particularly the Old Age Allowance (OAA), the State Welfare Card (SWC), the Child Support Grant (CSG) and the Disability Allowance (DA), are insufficient to lift beneficiaries out of poverty. While 11.5% of households benefiting from one programme live in poverty, this figure increases to 14% for those receiving support from two programmes and 18% for households covered by three different programmes. The persistence of poverty among households that receive more than one cash transfer indicates that the values of the cash transfers are low. Comparing benefit amounts to key benchmarks, such as the poverty line or the income levels of the first quintile of the consumption distribution, further highlights their inadequacy (Figure 1.9).

Figure 1.9. Cash transfers by social assistance programme in Thailand, 2023

Cash transfers in absolute terms and as a share of the national poverty line and the average wage in the first quintile of the distribution by social assistance programme, 2023



Note: SWC 1 = State Welfare Card (beneficiaries whose household income per capita ranges between THB 2 500 and 8 333 per month). SWC 2 = State Welfare Card (beneficiaries whose household income per capita falls below THB 2 500 per month). CSG = Child Support Grant. DA = Disability Allowance. OAA = Old-Age Allowance (benefit amount varies according to beneficiaries' age group). Cash transfers are shown in absolute terms (left axis) and as a percentage of the poverty line and the average wage in the first quintile (right axis). The national poverty line in 2023 was THB 3 043 per month (NESDC, 2024^[22]). The average wage in the first quintile amounted to THB 7 102 per month. Source: Authors' calculations based on the 2023 SES and the 2023 Informal Employment Survey (IES).

In contrast to international best practices, cash transfers in Thailand are not periodically adjusted to inflation. The lack of indexation has led to a significant reduction in the purchasing power of benefits over time. For instance, the OAA has already lost more than 10% of its purchasing power since 2011 (Organization et al., 2022^[7]). By establishing inflation as the minimum standard, policymakers retain the flexibility to implement ad hoc increases in benefits to respond to extraordinary economic conditions or unforeseen crises. Projecting social assistance benefit values relative to the poverty line over the next decade highlights the impact of not indexing benefits to inflation (Table 1.4).

Table 1.4. Projected social assistance benefit levels in Thailand, as a share of the poverty line, 2024-34

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Poverty line (THB)	3 104	3 166	3 229	3 294	3 360	3 427	3 495	3 565	3 636	3 709	3 783
OAA	21.4%	21.0%	20.5%	20.1%	19.7%	19.4%	19.0%	18.6%	18.2%	17.9%	17.5%
DA	25.8%	25.3%	24.8%	24.3%	23.8%	23.3%	22.9%	22.4%	22.0%	21.6%	21.1%
SWC	9%	9%	8%	8%	8%	8%	8%	8%	7%	7%	7%
CSG	19.3%	19.0%	18.6%	18.2%	17.9%	17.5%	17.2%	16.8%	16.5%	16.2%	15.9%

Note: The status quo scenario assumes that Thailand will not raise the benefits and that the poverty line adjusts for inflation.

Source: Authors' calculations based on 2023 SES data and inflation projections from IMF (2024^[23]) World Economic Outlook data.

Thailand's social protection governance framework is fragmented

In Thailand, numerous laws govern social protection programmes and schemes, while strategic plans provide guidance on the way forward. More than 30 laws regulate social protection programmes and schemes (Organization et al., 2022^[7]). Plans that provide strategic guidelines aiming to achieve universal social protection coverage include the National Strategy (2018-2037), the Master Plan on Equity and Social Protection, and the 13th National Economic and Social Development Plan (NESDC, 2022^[24]).

The social protection system in Thailand is fragmented across multiple institutions. Table 1.5 lists the institutions responsible for each main social protection programme. The MSDHS oversees social assistance programmes, including the Child Support Grant, the Old-Age Allowance and the Disability Grant. However, for both the OAA and the DA, the MSDHS is only involved in monitoring and evaluation. Budgeting and implementation, including the registration, verification and validation of beneficiaries, fall under the responsibility of local government authorities (Organization et al., 2022^[7]). Other ministries also provide social assistance, notably the Ministry of Finance with the State Welfare Card (SWC) and the Ministry of Education with the 15-year Free Education Programme, the Equitable Education Fund (EEF) and the Fund for Primary School Lunches Programme. Regarding social insurance, the Social Security Office (SSO) under the Ministry of Labour covers private sector employees and self-employed workers through the SSF and the Workmen's Compensation Fund (WCF). In contrast, the Ministry of Finance covers civil servants through the Civil Servant Medical Benefit Scheme (CSMBS), the Civil Servant Pension Scheme (CSPS) and the Government Pension Fund (GPF). The Ministry of Finance also administers the National Savings Fund (NSF), which targets informal workers not covered under the SSF. There is currently no national registry for social protection in Thailand, and the management information system of the social protection sector includes numerous unintegrated databases [apart from those the SSO and NSF deal with (Organization et al., 2022^[7])]. The complex architecture of the social protection system, characterised by fragmentation and lack of information sharing, likely affects the coherence and effectiveness of interventions. Centralising the administration of social assistance programmes within a single ministry could help reduce fragmentation and lower administrative costs.

Table 1.5. Main institutions of Thailand's social protection system

Institution	Main programmes
Ministry of Social Development and Human Security (MSDHS)	Child Support Grant (CSG)
	Old-Age Allowance (OAA)
	Disability Allowance (DA)
Ministry of Public Health (MoPH) / National Health Security Office (NHSO)	Universal Health Coverage Scheme (UHCS)
Ministry of Labour (MoL) / Social Security Office (SSO)	Social Security Fund (SSF)
	Workmen's Compensation Fund (WCF)
Ministry of Finance	State Welfare Card (SWC)
	Civil Servant Medical Benefit Scheme (CSMBS)
	Civil Servant Pension Scheme (CSPS)
	Government Pension Fund (GPF)
	National Savings Fund (NSF)
Ministry of Education	15-year Free Education Programme (FEP)
	Equitable Education Fund (EEF)
	Fund for Primary School Lunches Programme

Source: ILO et al. (2022^[7]), Thailand Social Protection Diagnostic Review: Social Protection for Migrant Workers and Their Families in Thailand, <https://publications.iom.int/books/thailand-social-protection-diagnostic-review-social-protection-migrant-workers-and-their-families>; World Bank (2021^[25]), *Towards Social Protection 4.0: An Assessment of Thailand's Social Protection and Labor Market Systems*, <https://documents1.worldbank.org/curated/en/637711622718440573/pdf/Towards-Social-Protection-4-0-An-Assessment-of-Thailand-s-Social-Protection-and-Labor-Market-Systems.pdf>.

The National Commission on Social Welfare Promotion (NCSWP) within the MSDHS could be endowed with additional power to implement reforms of the social protection system. The NCSWP is already in place within the MSDHS, vice-chaired by the minister of the MSDHS. The commission currently only deals with day-to-day operational matters rather than strategic issues. This commission, which emerged in the absence of an overarching strategy and governance structure for the sector, includes other line ministries; however, the MSDHS has no leverage on them. The commission's mandate could be reviewed, and the organisational structure of the commission could be adapted, placing it above the ministerial level, possibly the Prime Minister's Office, and bringing together representatives from all stakeholders, including civil society, workers' and employers' organisations.

Social assistance spending is projected to decline in the absence of inflation indexation

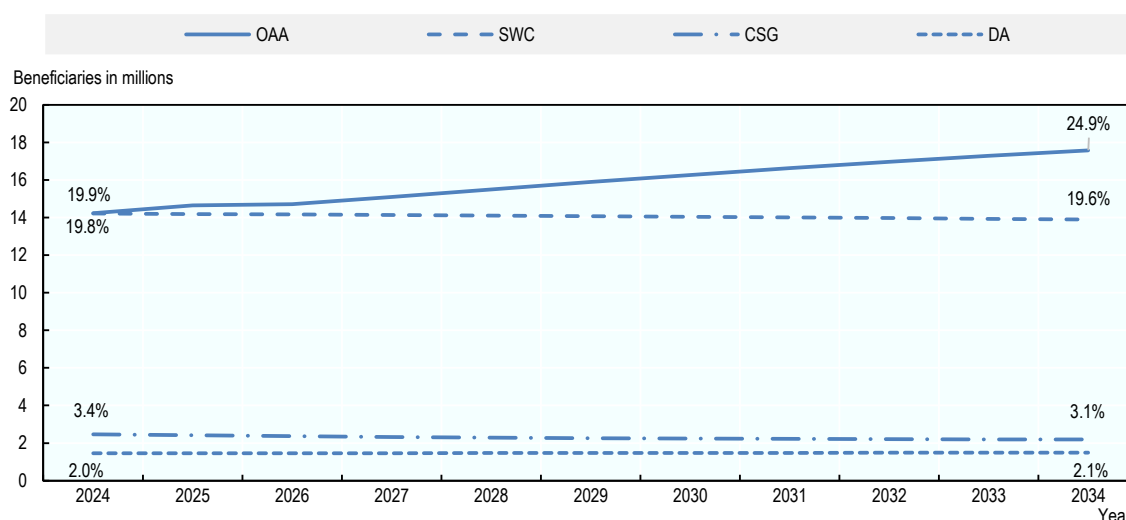
Given demographic trends, the number of beneficiaries of the OAA is projected to increase substantially, while the number of beneficiaries of the other programmes is expected to remain relatively stable in the absence of reforms. OAA beneficiaries are projected to increase from 14.2 million to 18 million between 2024 and 2034 (Figure 1.10). This trend reflects Thailand's population ageing and the resulting continuous expansion of OAA coverage. In the absence of inflation indexation of income thresholds, eligibility for means-tested programmes like the SWC and the CSG is expected to decline. The number of SWC beneficiaries is projected to decline from 14.2 to 13.9 million by 2034. The CSG exhibits a gradual decrease in the projected number of beneficiaries from 2.5 to 2.2 million over the same period. The declining number of beneficiaries of the CSG can be explained by the declining fertility rate.

Social assistance spending on cash benefits as a share of GDP will decline due to an absence of indexation of benefits and eligibility thresholds with inflation. Despite stable or slightly increasing nominal costs, social assistance spending on cash benefits is projected to gradually reduce in real value, affecting the coverage and adequacy of benefits. The OAA is the only programme that exhibits a rise in total expenditure in nominal terms, from THB 131 billion to THB 168 billion between 2024 and 2034

(Table 1.6). As Thailand's elderly population grows, more individuals become eligible for the OAA. However, as a share of GDP, spending declines from 0.7% to 0.5%. Without inflation-adjusted benefits, expenditure will quickly lag behind economic growth, causing its proportion of GDP to shrink even as the number of beneficiaries increases. The SWC and CSG costs display a more pronounced decline as a share of GDP due to the combined effects of unindexed benefits and fixed income eligibility thresholds.

Figure 1.10. Projected number of beneficiaries for Thailand's Old-Age Allowance, State Welfare Card, Child Support Grant and Disability Allowance, 2024-34

Projected number of beneficiaries and share of beneficiaries (as a percentage of the total population) of social assistance programmes with the status quo scenario, 2024-34



Note: The number of beneficiaries per programme is first calculated for 2023 based on SES data (in millions, left axis). See Annex 1.B for a description of the assumptions made. The figure indicates the share of beneficiaries (as a percentage of the total population) for 2024 and 2034. Source: Authors' calculations based on 2023 SES data and United Nations (2024^[41]), *World Population Prospects 2024*, <https://www.un.org/development/desa/pd/world-population-prospects-2024>.

Table 1.6. Projected social assistance expenditures for Thailand's Old-Age Allowance, State Welfare Card, Child Support Grant and Disability Allowance, 2024-34

Projected social assistance expenditures with the status quo scenario, by social assistance programme, 2024-34

Programme	Costs	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
OAA	In THB billions	131	135	139	142	146	150	154	158	161	165	168
	% of GDP	0.68%	0.67%	0.65%	0.63%	0.61%	0.60%	0.58%	0.56%	0.54%	0.52%	0.51%
SWC	In THB billions	61	61	61	61	61	61	60	60	60	60	60
	% of GDP	0.32%	0.30%	0.29%	0.27%	0.25%	0.24%	0.23%	0.21%	0.20%	0.19%	0.18%
CSG	In THB billions	24	23	23	22	22	22	21	21	21	21	21
	% of GDP	0.12%	0.11%	0.11%	0.10%	0.09%	0.09%	0.08%	0.08%	0.07%	0.07%	0.06%
DA	In THB billions	20	20	20	20	20	19	19	19	19	19	19
	% of GDP	0.10%	0.10%	0.09%	0.09%	0.08%	0.08%	0.07%	0.07%	0.07%	0.06%	0.06%

Source: Authors' calculations based on 2023 SES data and GDP projections from IMF (2024^[23]) World Economic Outlook data.

Short-term reforms could improve the coverage and adequacy of social assistance benefits

To ensure adequate and sustainable social protection, increased spending is necessary. A study by the Asian Development Bank (ADB) (2024^[26]) using the Social Protection Program Module – which evaluates over 15 different social protection programmes, including cash and in-kind benefits, contributory and non-contributory schemes, health insurance, and active labour market programmes (ALMPs) – estimates that Thailand would need to increase social insurance expenditure by 1.6% of GDP and social assistance expenditure by 3.3% of GDP to fully implement comprehensive social protection floors by 2030. These figures underscore the scale of investment required to build a robust and inclusive social protection system. Currently, there appears to be a short-term window of opportunity to expand social assistance until 2030. However, over the medium to long term, the fiscal pressures of financing old-age pensions and healthcare for an ageing population are expected to pose significant and growing challenges.

This section discusses three types of reform areas regarding social assistance cash benefits: improving the adequacy of benefits, expanding coverage through social assistance by transitioning toward categorical targeting and reducing disincentives to formalisation. This section examines scenarios to increase benefit levels and broaden coverage of some social assistance programmes in the short and medium term. More concretely, this section simulates the costs of the reforms for four critical social assistance cash benefits programmes: the Old Age Allowance, the Child Support Grant, the Disability Allowance, and the State Welfare Card. Each of these programmes is analysed under a range of reform scenarios that vary in their level of comprehensiveness. The proposed reforms build on the plans shared by the MSDHS and the National Commission on Social Welfare Promotion which is considering moving from means-testing targeting to a universal approach and expanding social assistance benefits to get closer to the poverty line.

The SWC could be replaced by an unconditional cash transfer (UCT). The proposal to switch from a voucher (SWC) to a cash transfer would allow beneficiaries more flexibility. However, it should be acknowledged that the UCT will not resolve the existing targeting issues of the current tiered, means-tested SWC. These challenges stem partly from high informality, which is unlikely to be significantly reduced soon. The UCT could be seen as a first-best scenario, which includes a phase-out mechanism that would gradually reduce the benefit as income increases. This mechanism would reduce incentives for wage bunching and undeclared cash payments to avoid losing the cash benefit. As a second-best policy, the existing upper-income thresholds for eligibility under the SWC cash transfer could be retained but applied solely at the time of initial benefit granting. Thereafter, entitlement to the benefit could be restricted to a fixed duration (e.g. two years).

Proposed reforms to enhance the adequacy of benefits:

- Index benefits to inflation.
- Retain the tiered OAA benefit structure, allowing higher benefits for older age groups that are more likely to experience poverty.
- Raise benefit amounts to half of the poverty line for the CSG, OAA and the DA.

Proposed reforms to increase coverage:

- Revise the eligibility criteria of the DA.
- Transform the CSG into a universal cash benefit, eliminating the means test that currently limits access.
- Replace the current SWC voucher system with a UCT of THB 750.

Proposed reforms to reduce disincentives to formalisation:

- Eliminate the means test for the CSG.
- Implement a phase-out mechanism for the UCT as a first-best option. This mechanism would gradually reduce the benefit until it fully phases out at an income of THB 14 700 per month (further discussed in Chapter 3).²

The proposed reforms for the short-medium term are modelled for the four social assistance programmes: OAA, DA, CSG and SWC/UCT. For each programme, various reform scenarios – from the least to the most ambitious – are compared against the status quo, assessing the fiscal impacts and changes in beneficiary coverage associated with each approach. The initial reform scenarios for the OAA, DA, and CSG are derived from the NCSWP's proposed reforms (Scenario 1), which differ slightly from the MSDHS's reform plan. The primary difference is that the MSDHS recommends implementing a flat benefit rate for the OAA, which is reflected in OAA Reform Scenario 2. It is important to note that the costing model does not account for the implementation time of these reforms. This is because the timeline for implementing these reforms is inherently uncertain, and the primary focus of the costing section is to assess the fiscal impact of each reform scenario once fully implemented.

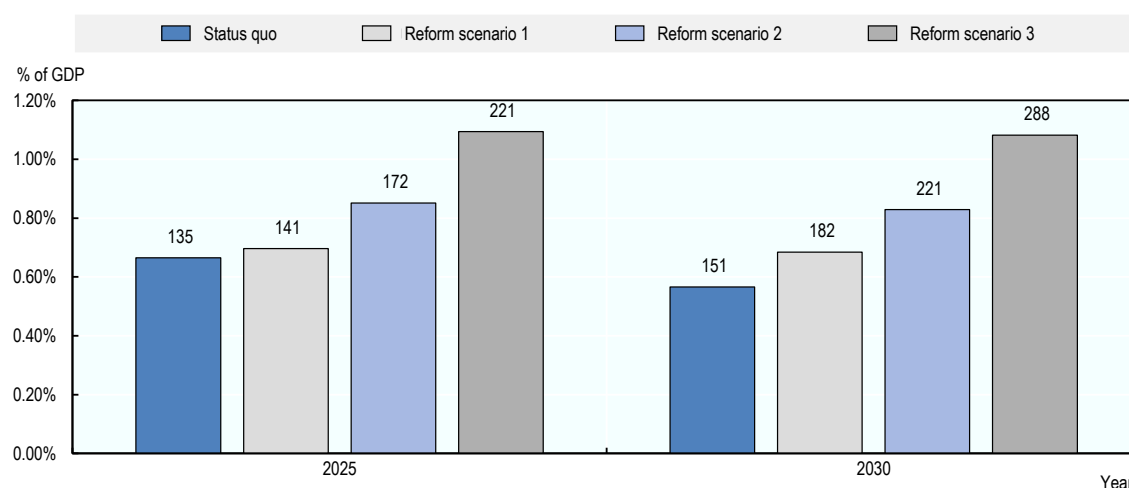
A tiered benefit system can deliver greater protection for older age groups that are at a higher risk of falling into poverty. Currently, the OAA ranges from THB 600 per month for those aged 60-69 to THB 1 000 per month for those aged 90 and older. Under reform Scenario 1, which replicates the NCSWP proposed reform, these amounts would increase slightly, leading to an overall expense rise of just 5% in 2025 (Figure 1.11). Opportunities to earn income decline with age and the oldest are often the poorest. A tiered benefit system would be a cost-effective targeting method to direct support to the most vulnerable without introducing the administrative complexity of means testing. This approach proves less costly than introducing a flat-rate universal benefit of THB 1 000 per month, as envisaged by the MSDHS, which would increase costs by 28% in 2025 (reform Scenario 2).

The proposed scenarios aim to ensure disabled individuals receive the best support while minimising overlaps across schemes. In reform Scenario 1, the disability benefit (THB 1 000 per person, according to both NCSWP and MSDHS proposed reforms) automatically transitions into the OAA at age 80 because both benefits match at the THB 1 000 rate. Disabled individuals aged 60-79 are excluded from the OAA, ensuring that those who cannot work – or have only partial capacity to work – receive the higher disability benefit instead of the lower OAA for that age group. This approach offers more generous support to vulnerable older adults until they reach age 80 when the disability benefit seamlessly becomes the OAA.

Reform Scenario 3 includes a tiered benefit structure with slightly more generous benefits. In this scenario, which is a more generous variant of the NCSWP proposed reform, monthly payments would rise from THB 600 to THB 1 000 for those aged 60-69, from THB 700 to THB 1 250 for those aged 70-79, from THB 800 to THB 2 000 for those aged 80-89 and reach THB 3 000 for those 90 and above – nearly the poverty line. This results in a 64% increase in costs compared to the current system in 2025. Additionally, the disability benefit would automatically convert to the OAA at age 60 under this plan.

Figure 1.11. Costing scenarios for Thailand's Old-Age Allowance

Costs as a share of GDP and in THB billions for the OAA reforms



OAA costing options	Indexing the benefit	Universalise the benefit	Raise benefit per age cohort
Scenario 1	x		x (average increase THB 175)
Scenario 2	x	x	
Scenario 3	x		x (average increase THB 1 037)

Note: Data labels attached to the bars represent costs in THB billions. Reform Scenario 1 replicates the NCSWP's proposed reform, which aims to raise the OAA from THB 600 to THB 700 for those aged 60-69, from THB 700 to THB 850 for those aged 70-79, from THB 800 to THB 1 000 for those aged 80-89, and from THB 1 000 to THB 1 250 for those aged 90 and above. Reform Scenario 2 follows MSDHS' plan to remove the age-tiered benefit structure by introducing a flat-rate benefit of THB 1 000 per beneficiary. Reform Scenario 3 is a more generous variant of the NCSWP proposed reform, which increases the OAA from THB 600 to THB 1 000 for those aged 60-69, from THB 700 to THB 1 250 for those aged 70-79, from THB 800 to THB 2 000 for those aged 80-89, and from THB 1 000 to THB 3 000 for those aged 90 and above. Disabled people under age 80 are excluded from Scenarios 1 and 3 because they already receive a higher disability benefit, which automatically transfers to an OAA benefit once they turn 80. In Scenario 2, this automated transfer takes place at age 60.

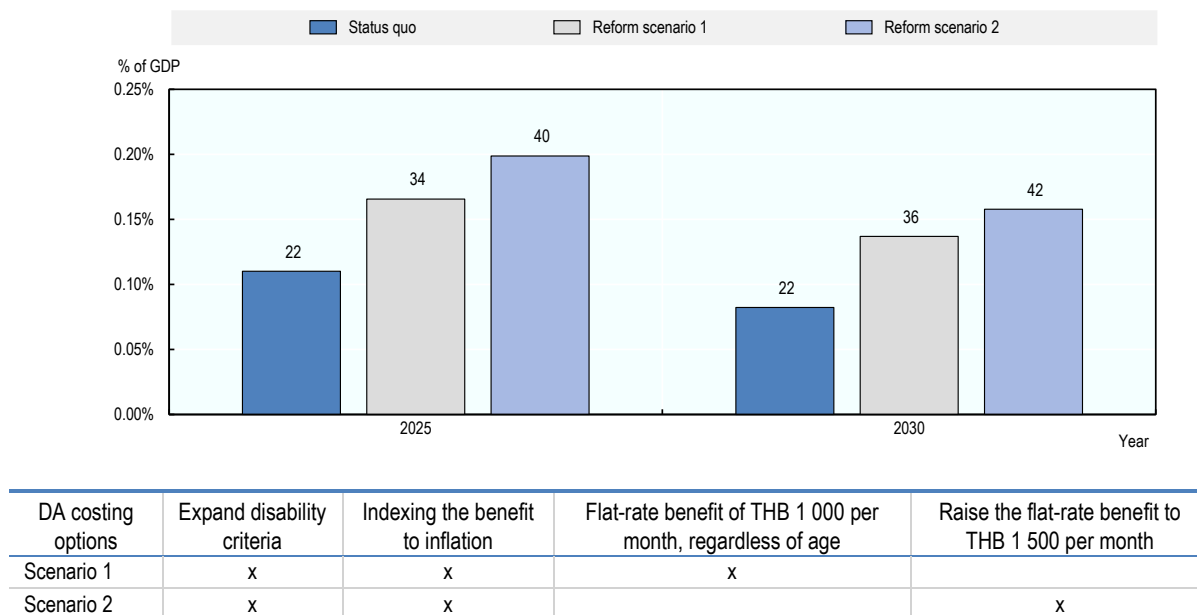
Source: Authors' calculations.

The scenarios considered for the DA expand coverage and increase adequacy at a moderate cost.

In reform Scenario 1, the flat-rate benefit of the DA is THB 1 000 per month, and the DA transitions to the OAA only at age 80, which keeps total spending increases relatively contained (Figure 1.12). In contrast, reform Scenario 2 offers a higher flat-rate benefit (THB 1 500 per month) and shifts recipients onto the OAA at an earlier age (60), broadening the support of the DA but also driving up overall fiscal costs (0.16% of GDP in 2030). DA costs would increase from THB 1.48 million under the status quo to THB 2.38 million and THB 1.84 million by 2030 in reform Scenarios 1 and 2, respectively.

Figure 1.12. Costing scenarios for Thailand's Disability Allowance

Costs as a share of GDP and in THB billions for the DA reforms



Note: Data labels attached to the bars represent costs in THB billions. Reform Scenario 1 replicates NCSWP and MSDHS proposed reforms, which aim to increase the DA to THB 1 000 for all beneficiaries regardless of age. DA automatically turns into the OAA benefit at age 80 and above. Under reform Scenario 2, the flat-rate benefit is raised to THB 1 500, and DA turns into the OAA benefit at age 60 and above.

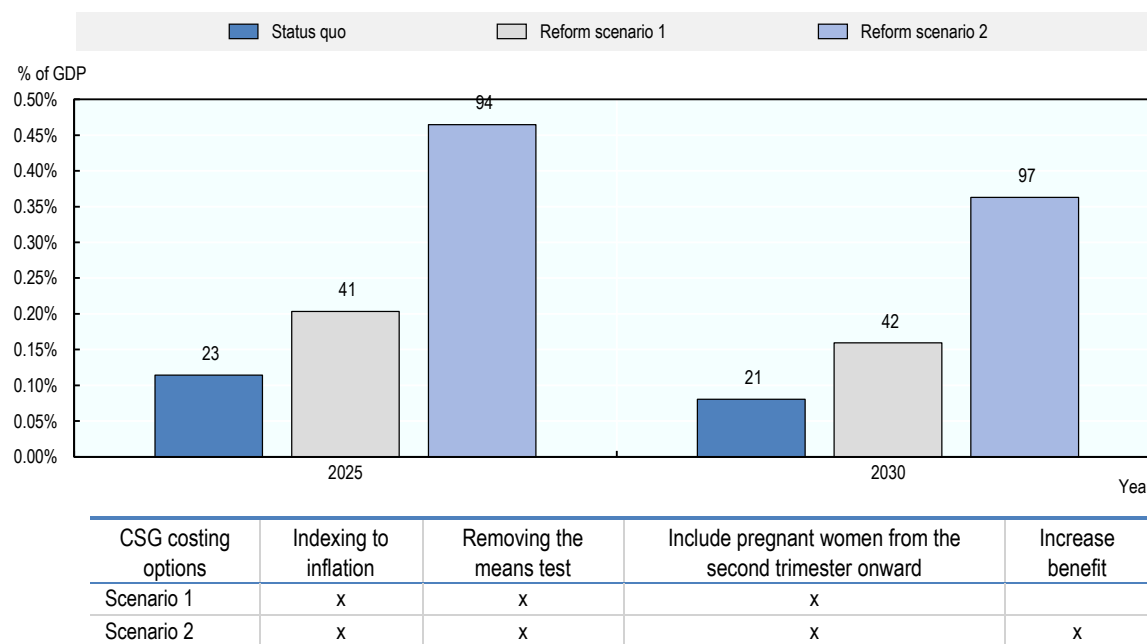
Source: Authors' calculations.

As the status quo cost of the CSG diminishes relative to GDP over time due to a decline in fertility rates, an opportunity to reform this benefit arises. Under the status quo, the costs of the CSG as a percentage of GDP are projected to decrease from 0.11% in 2025 to 0.08% by 2030 (Figure 1.13). This downward trend provides a fiscal window for considering policy reforms such as expanding coverage or increasing the benefits without imposing extra constraints on the government budget.

The removal of the means test is expected to increase cost-effectiveness. Removing the means test and extending the benefit to pregnant women from the second trimester of their pregnancy onwards nearly doubles the number of CSG recipients compared to the status quo. This reform would increase the total cost of the benefit. However, this universal approach reduces administrative costs since eligibility checks become unnecessary. Although reform Scenario 1 would raise expenditures above the current system, its overall impact remains modest when viewed as a share of national GDP (Figure 1.13). The advantages of reducing the programme administration costs need to be weighed with the increased spending when the benefit becomes available to a larger share of the population. In the medium term, Thailand could potentially exclude the richest households through an affluence test.

Figure 1.13. Costing scenarios for Thailand's Child Support Grant

Costs as a share of GDP and in THB billions for the CSG reforms



Note: Data labels attached to the bars represent costs in THB billions. Scenarios 1 and 2 would give THB 3 000 to pregnant women in the second and third semesters while keeping the grant at THB 600 per child aged 0-6, as the NCSWP and MSDHS proposed. Scenario 2 increases the benefit amount for children aged 0-6 to THB 1 500.

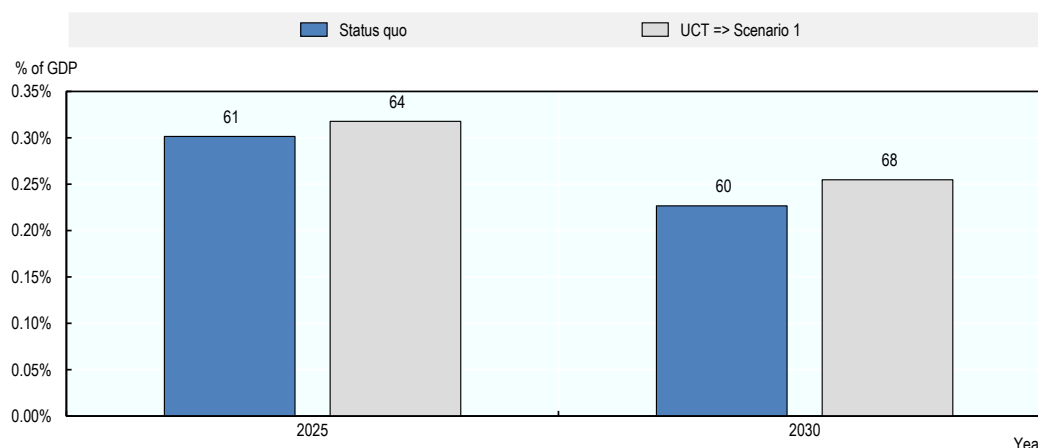
Source: Authors' calculations.

Thailand could consider a more ambitious strategy to reform the CSG – such as increasing the child benefit to THB 1 500 (Scenario 2). Even with these enhancements, the programme's expenses would remain well below half a percentage point of GDP. In essence, adopting a universal design that includes pregnant women and raises benefit levels offers a substantially higher level of support while retaining overall budgetary feasibility.

Replacing the SWC with a gradually phased-out UCT slightly increases costs but better targets assistance to those most in need. Unlike the current SWC, which includes older adults, the proposed UCT only covers working-age individuals (aged 18-60). As a result, some non-poor people receive a part of the benefit (which decreases with income), but the poorest recipients receive a notably higher amount, with their average benefit reaching THB 675 per month compared to the overall average of THB 487, thereby ensuring that those most in need still gain the greatest support (Figure 1.14). It is important to note that although the UCT scenario allocates resources to individuals above the poverty threshold, the benefit begins phasing out immediately at zero income.

Figure 1.14. Costing scenarios for Thailand's State Welfare Card

Costs as a share of GDP and in THB billions for replacing the SWC with a phased-out UCT



Scenario 1 (UCT)	Unconditional cash transfer for ages 18-60 with income below THB 14 700 per month (indexed to inflation). Benefit starts at THB 750 per month, phasing out with a marginal tax rate at 5%. Average benefit: THB 487 per month, and THB 675 per month for living below the national poverty line.
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Notes: Data labels attached to the bars represent costs in THB billions.

Source: Authors' calculations.

The reforms of the cash benefit programmes would increase spending by 0.88% of GDP. This reform package would increase total spending of the main social assistance cash benefits (OAA, DA, CSG and SWC) from 1.19% to 2.08% of GDP in 2025 under the most ambitious reform scenarios (Table 1.7).

Table 1.7. Social assistance cash benefit expenditures scenarios for Thailand

Cost of alternative social assistance expenditure scenarios as a percentage of GDP

Costs as % of GDP	2025
Status quo scenario	1.19%
Scenario proposed by the National Commission on Social Welfare Promotion	1.37%
More ambitious scenario	2.08%
Additional cost (more ambitious scenario minus status quo)	0.88%

Note: The "more ambitious" scenario includes Scenarios OAA 3, DA 2, CSG 2 and SWC 1. The National Commission on Social Welfare Promotion scenario includes Scenarios OAA 1, DA 1, CSG 1 and SWC status quo.

Source: Authors' calculations.

Box 1.2. Key recommendations for social assistance reform in the short-medium term in Thailand

Enhance the adequacy of benefits

- Index benefits to inflation across the OAA, DA, CSG and SWC programmes.
- Retain the tiered OAA benefit structure, allowing higher benefits for older age groups who face greater poverty risks.
- Raise benefit amounts to one-half of the poverty line for the CSG and the DA. For the OAA, raise the benefit level to the poverty line for the oldest elders.
- Replace SWC vouchers with an unconditional cash transfer indexed to inflation to increase flexibility and reduce the impact of higher prices and limited choice in eligible stores.

Increase coverage

- Expand the coverage of the DA by revising its eligibility criteria.
- Remove the means test for the CSG.
- Include pregnant women from the second trimester onwards in the CSG and give them a benefit of TBH 3 000.
- Index the income eligibility threshold for means-tested benefits.

Reduce disincentives to formalise

- Implement a phase-out for the unconditional cash transfer to replace the SWC.
- Eliminate the means test for the CSG.

Reduce fragmentation and overlap among the social assistance programmes

- Restrict the unconditional cash transfer to the working-age population.
- Exclude DA beneficiaries from receiving the OAA allowance and vice versa.

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Annex 1.A. Overview of social protection programmes in Thailand

Annex Table 1.A.1. Main social assistance programmes in Thailand

Programme	Institution in charge	Target population	Benefits	Number of beneficiaries	Total expenditure
Child Support Grant (CSG)	Ministry of Social Development and Human Security (MSDHS)	Poor families (household income per capita < THB 8 333 per month and assets owned < THB 100 000) with children aged between 0 and 6	Monthly cash transfer of THB 600 per child	1.76 million in 2020	THB 17.5 billion in 2023
Old-Age Allowance (OAA)	MSDHS	All individuals aged 60 and above who do not receive civil service or private teacher pensions	Monthly cash transfer of THB 600 for those aged 60-69, THB 700 for those aged 70-79, THB 800 for those aged 80-89, and THB 1 000 for those aged 90 and above	9.09 million in 2019	THB 90.2 billion in 2023
Disability Allowance (DA)	MSDHS	Individuals with disabilities (holding a disability card according to the Persons with Disabilities' Quality of Life local government Promotion Act)	Monthly cash transfer of THB 800	1.97 million in 2019	THB 19.8 billion in 2023
State Welfare Card (SWC)	Ministry of Finance	Individuals aged 18 and above who are unemployed or whose household income per capita is < THB 8 333 per month and assets owned < THB 100 000	Credit for the purchase of consumer goods for THB 300 for those whose household income per capita is < THB 2 500 per month, and THB 200 for those whose household income per capita ranges between THB 2 500 and THB 8 333 per month Other benefits include: THB 45 every quarter for cooking gas, THB 500 per month for the Bangkok mass transit bus and sky train fares, THB 500 per month for bus fares and THB 500 per month for train fares.	13.9 million in 2020	THB 52.2 billion in 2023
Universal Health Coverage Scheme (UHCS)	Ministry of Public Health (MoPH) / National Health Security Office (NHSO)	All individuals not covered by other healthcare schemes (Social Security Fund and Civil Servants Medical Benefit Scheme), including spouses and dependents	Comprehensive benefit package covering promotive and preventive services; diagnosis; antenatal care; curative care; medicine, medical supplies, organ substitutes, and medical equipment; delivery; boarding expenses within healthcare units; newborn and childcare; ambulance or transportation for patients; transportation for disabled persons; physical and mental rehabilitation; and other expenses necessary as prescribed by the National Health Security Board	47 million in 2024	Budget of THB 198.9 billion allocated in 2024 (including the salaries of healthcare providers)

Source: Ministry of Public Health Thailand; World Bank (2021^[25]), *Towards Social Protection 4.0: An Assessment of Thailand's Social Protection and Labor Market Systems*; ILO, UNICEF, IOM, and UN Women (2022^[7]), *Thailand Social Protection Diagnostic Review: Social Protection for Migrant Workers and Their Families in Thailand*; NESDC, *Thai Government Expenditure on Key Social Protection Programs, Fiscal Years 2019-2023*.

Annex 1.B. Costing methodology

The costing model is inspired by van de Meerendonk, Heins and Nimeh (2024^[26]) and is used to make projections for the future on the cost of selected social assistance programmes based on the latest available data from the Household Socio-Economic Survey (SES) conducted in 2023.

The **first step** consists of identifying the share of the population eligible for each social assistance programme for the status quo:

- **OAA:** Eligible individuals were categorised in the model based on their age to identify those who become elders and what benefit they should receive according to their age, except for those receiving civil servants' or private teachers' pensions. Data on private teachers' pensions are not available in the SES. Therefore, this criterion was not considered, which could be considered a limitation. In 2023, 84% of individuals aged 60 or older were not receiving social security benefits and were considered, therefore, eligible for the OAA. This share is assumed to remain constant.
- **DA:** Eligible individuals were assessed in the model based on a self-reported measure of disability according to the SES. Those who indicated that they had a disability (either mental, physical or both) were marked as eligible for the allowance, while all others were marked as ineligible.
- **CSG:** The model then assesses children's eligibility based on age and enrolment status to determine those within the qualifying age range (0-6 years). The eligibility threshold, set at an annual household income per capita of THB 100 000 and assets worth not exceeding THB 100 000, has not been adjusted for inflation in recent years, and it is assumed that this will remain unchanged going forward.
- **SWC:** The model distinguishes between two types of benefits: a THB 300 allowance for those with very low incomes and a THB 200 allowance for those with slightly higher incomes. Eligibility for the THB 300 benefit was determined by selecting individuals aged 18 and above whose per capita income fell below THB 2 500 and who owned assets valued at less than THB 100 000. If these criteria were met, the individuals were marked as eligible; otherwise, they were marked as ineligible. For the THB 200 benefit, the eligibility threshold was set for individuals within a higher income range (between THB 2 500 and THB 8 333) but still with the same asset limitation. The eligibility thresholds, similar to the CSG, have not been adjusted for inflation in recent years, and it is assumed that this will remain unchanged going forward. It is important to note that only the cash benefit part of the SWC is being costed as there is no administrative data on the take-up rates of the voucher components of the programme, making modelling challenging.

The **second step** involves calculating the number of beneficiaries for 2023, taking into account targeting errors, which are assumed to remain constant over time. Since the income threshold for means-tested benefits is not indexed to inflation, a smaller portion of the population qualifies for these benefits over time. The underlying assumption is that if the income threshold were indexed to inflation, the same share of the population would meet the eligibility criteria. This assumption is based on the premise that average incomes grow in line with inflation rather than GDP growth. Ideally, data on wage growth for low-income individuals – particularly informal workers – would provide a more accurate basis for this assumption, as their income growth may differ from average wage growth trends.

The **third step** borrows from the United Nations Department of Economic and Social Affairs (UN DESA) World Population Prospects (WPP) population projections for Thailand, where the eligible population and the number of beneficiaries are calculated for each year within the projection period.

The **fourth step** is cost calculation, which involves multiplying the number of beneficiaries by the benefit amount. For programmes like SWC and OAA, beneficiaries are divided based on the specific benefit amounts they are eligible to receive. Regarding inclusion errors, the assumption is that the benefit amount for those incorrectly included is similar to that of eligible recipients. For OAA and SWC, which offer multiple benefit levels, the total cost is divided by the benefits allocated to eligible recipients to determine the average benefit amount. This average is then applied to all beneficiaries who fall under inclusion errors. The assumption is that all four benefits are long term, meaning that people will receive them throughout the year. The benefits are not being indexed to inflation, so their value diminishes over time. In the absence of administrative data, estimates of administrative costs (calculated as a percentage of total benefit costs) follow (International Labour Organization, 2007^[27]) these assumptions: 15% for universal cash benefits like OAA and DA, and 33% for targeted cash benefits to poor households like CSG and SWC. These administrative costs are included in the total cost projections. It is important to note the deviation from the administrative costs calculated from the ILO statistics as those seem improbably high.

The **fifth step** involves comparing programme costs to GDP for the same year to assess the economic burden of social protection spending. The GDP projections used in this analysis are sourced from the IMF's WEO data up to 2028. For projections beyond 2028, GDP estimates are extended to 2034 using a growth formula. This formula calculates an annual growth rate by comparing GDP values at the start and end of the projection period. Constant prices are utilised for GDP values to control for inflationary effects, ensuring that comparisons reflect real economic growth rather than changes driven by price level variations.

The **sixth step** integrates the proposed reforms into the projections, following the same process as the status quo but with key differences:

- In the first step, the number of eligible individuals changes for the OAA and DA. Under the reform scenarios, individuals with disabilities who reach age 60 become eligible for the OAA but can no longer receive both the DA and OAA simultaneously. For the CSG, eligibility expands to include pregnant women in their third trimester. This is accounted for by taking the projected number of newborns in the following year (e.g. for 2026) and multiplying it by 3/12 to estimate the number of pregnant beneficiaries in 2025. The reform in which the UCT replaces the SWC targets only the working-age population.
- The second step differs in that the number of eligible individuals is assumed to match the actual covered population under each reform scenario. Additionally, for the UCT, which is means-tested, the income threshold is indexed to inflation, ensuring that the same share of the population remains eligible throughout the projection period.
- The third step remains unchanged, continuing to use UN DESA World Population Prospects (WPP) projections to estimate the number of eligible individuals and beneficiaries for each year.
- The fourth step also follows the same methodology: the updated number of beneficiaries is multiplied by the benefit amount. This includes the revised, higher benefit levels under the reform scenarios where applicable.
- The fifth step remains similar, comparing total programme costs to GDP projections to assess the fiscal impact of the reforms.

Notes

- ¹ The Conditional Cash Transfer for Extremely Poor Students targets schools administered by the following organisations: Office of the Basic Education Commission (OBEC), Local Administrative Organizations (LAO), Border Patrol Police (BPP), Office of the Private Education Commission (OPEC), Bangkok Metropolitan Administration (BMA), and National Office of Buddhism (NOB).
2. This threshold corresponds to 1.5 times the minimum wage and 0.85 times the average wage of private sector workers in Thailand. The justification for the phase-out mechanism is discussed in Chapter 3.

2 Mobilising domestic revenues to finance social protection in Thailand

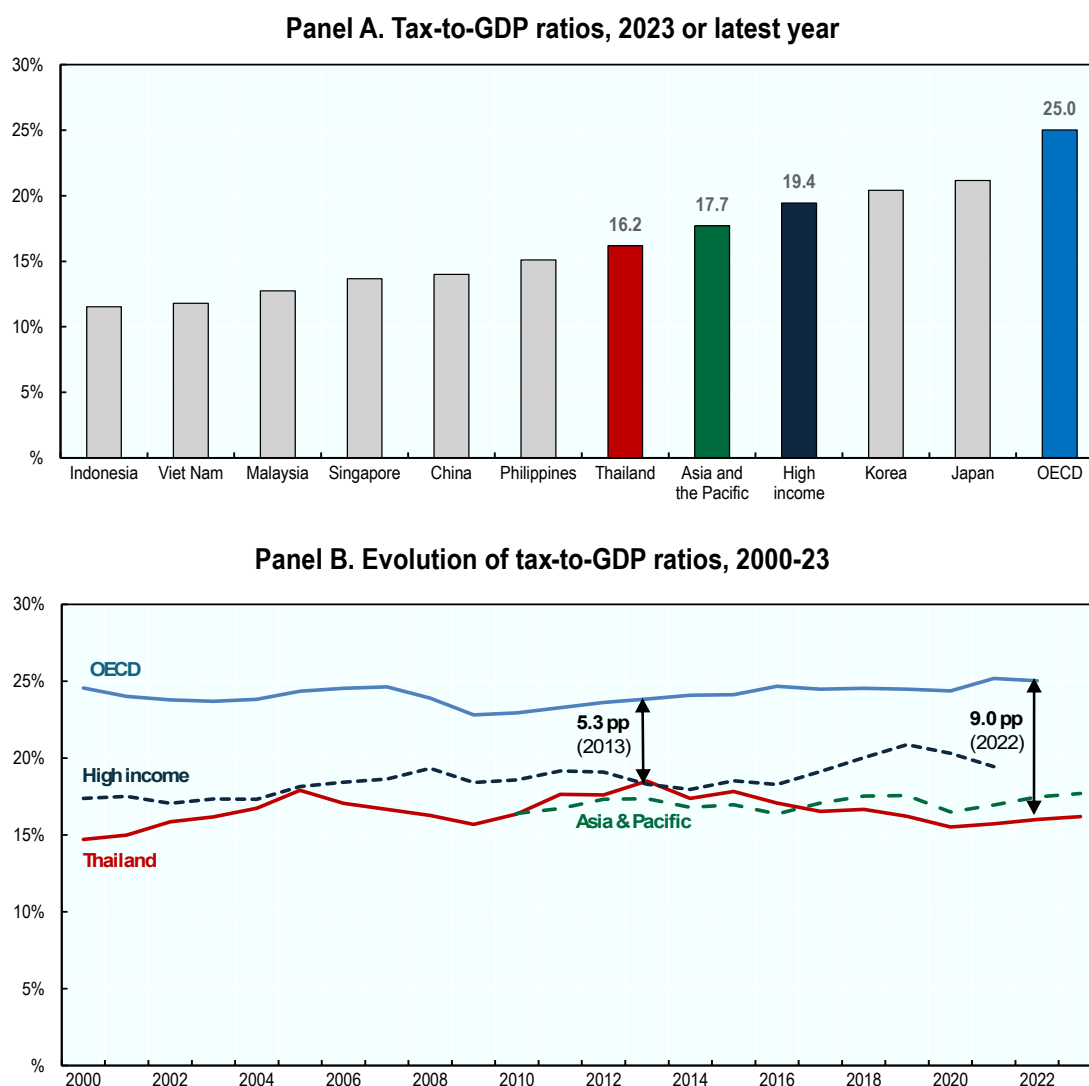
This chapter discusses tax policy measures aimed at increasing tax revenues to finance social protection in Thailand. First, it analyses current tax revenues, discusses Thailand's additional tax revenue potential and reviews tax policy measures that Thailand could put in place to broaden its tax bases. Second, it discusses tax policy measures to increase revenue while at the same time reducing inequality. Finally, the chapter presents the revenue potential from excise taxation, particularly health and environmental taxes.

Thailand has significant potential to increase tax revenues

Thailand's tax-to-GDP (gross domestic product) ratio is low, and the gap with peer countries has widened over time. In 2023, Thailand's tax-to-GDP ratio (excluding social security contributions [SSC]) is 16.2%, significantly lower than the OECD average ratio (25% in 2022), and the Asia and the Pacific average ratio (17.7% in 2023) (Figure 2.1– Panel A). Since 2013 the tax-to-GDP ratio in Thailand has diverged from the OECD, HIC and Asian regional averages (Figure 2.1– Panel B).

Figure 2.1. Tax-to-GDP ratios and their evolution in Thailand and selected countries, 2000-23

Total tax revenue (excluding SSC) as a % of GDP



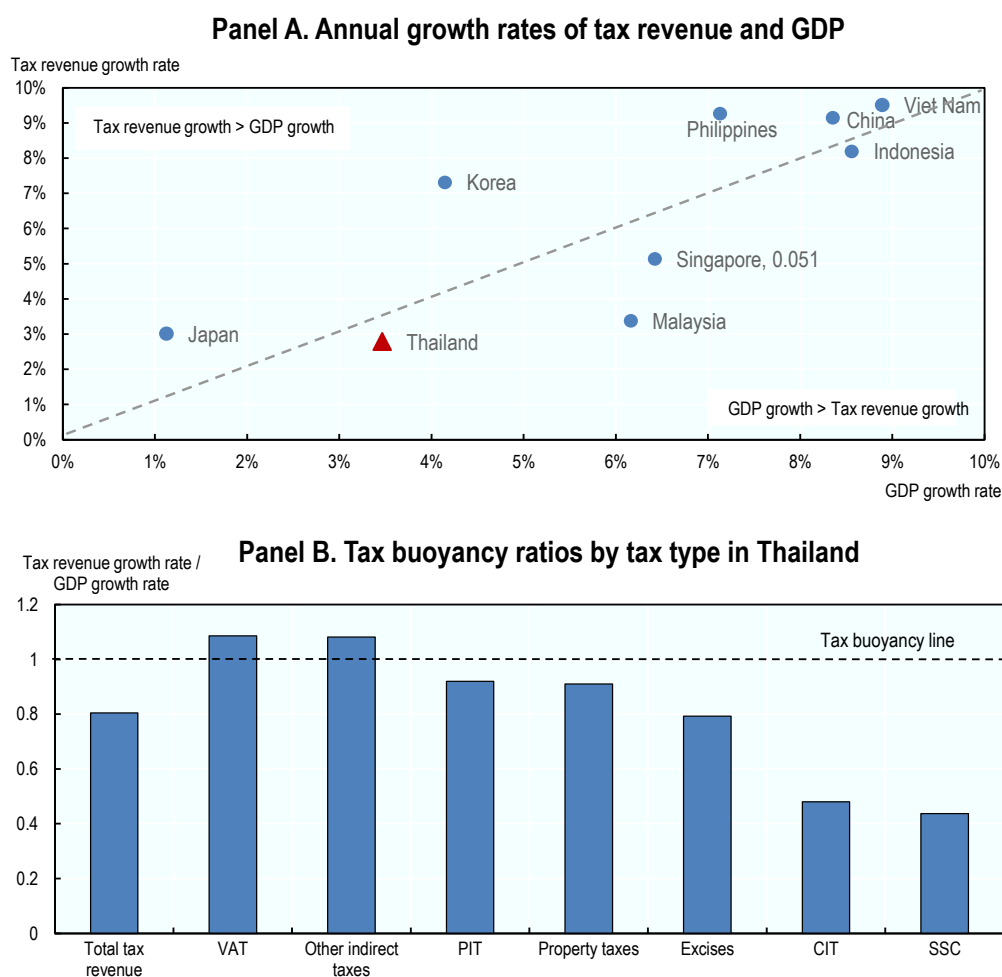
Note: Thailand's peer countries were selected based on being upper-middle-income or high-income countries in Asia and the Pacific. The average for high-income countries is calculated based on 14 non-OECD countries. The tax-to-GDP ratios for Japan and the OECD average refer to data from 2022.

Source: OECD (2024^[11]), *Global Revenue Statistics Database*, <https://www.oecd.org/en/data/datasets/global-revenue-statistics-database.html>.

Taxes are not buoyant in Thailand. Taxes are considered buoyant when tax revenues grow at the same or a higher rate than the GDP growth rate, leading to increased tax revenue and a higher tax-to-GDP ratio as a country develops. The lack of tax buoyancy explains the decreasing tax-to-GDP ratio in Thailand. While GDP grew at an annual rate of 3.5% in Thailand from 2012 to 2022, tax revenues grew at an annual rate of only 2.8% (Figure 2.2 – Panel A). The only buoyant taxes are the Value Added Tax (VAT) and other indirect taxes, including custom and import duties, taxes on specific services and taxes on the use of goods (Figure 2.2 – Panel B). Low tax buoyancy in Thailand can be explained by various factors, including the fact that economic growth is stimulated through generous tax incentives that cut the link between growth and tax revenue and that the enforcement of the tax system is not sufficiently effective in increasing tax revenues in line with economic growth. Because of the progressivity of the Personal Income Tax (PIT), the PIT is usually a buoyant tax, however not in Thailand, where various PIT exemptions and deductions undermine its role in the tax and benefit system (see Chapter 3). The Corporate Income Tax (CIT) is even less buoyant, which is suggestive of a need to better protect the CIT base.

Figure 2.2. Tax buoyancy in Thailand and selected countries, 2012-22

Tax buoyancy, measured as tax revenue growth rates over GDP growth rates, 2012-22



Note: Annual growth rates correspond to the compound annual growth rate of nominal values between 2012 and 2022. GDP data uses current prices, and total tax revenues include SSC. The tax buoyancy values are calculated as the ratio of the annual growth rate of tax revenues by tax type to the annual growth rate of GDP (2012-22).

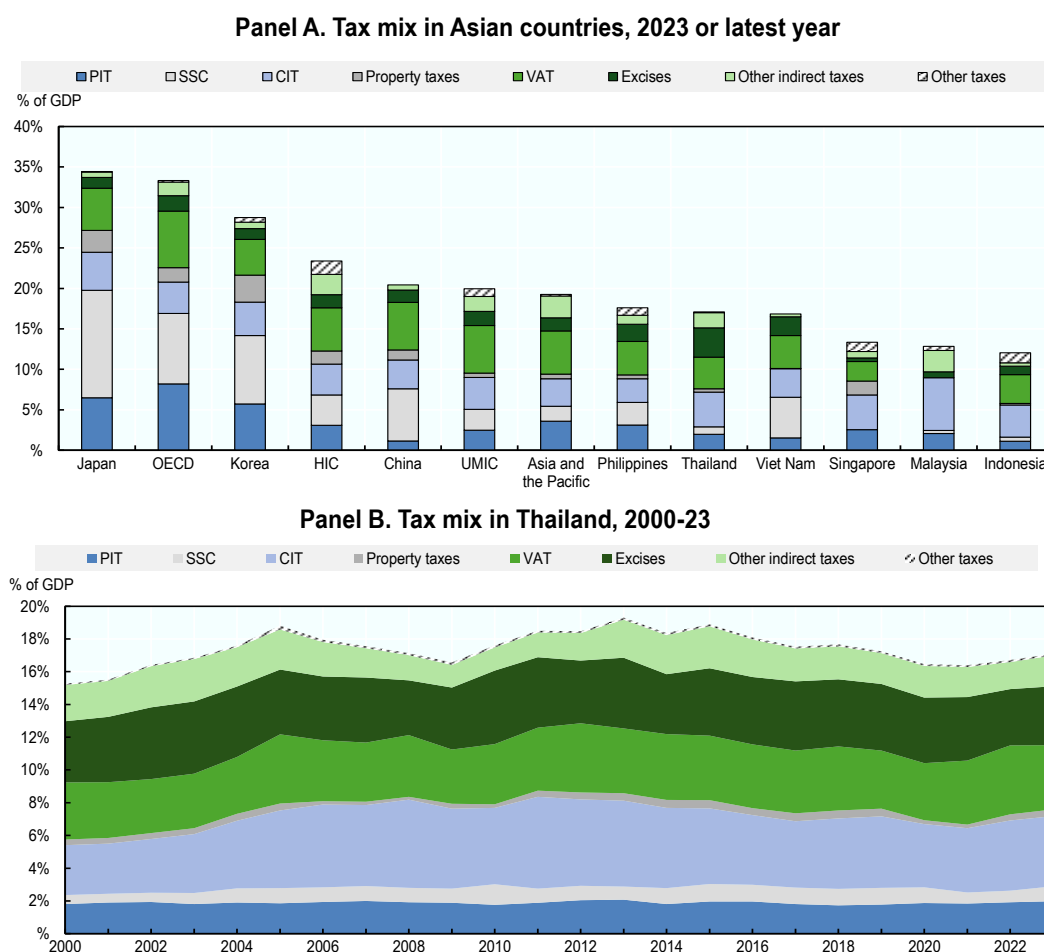
Source: OECD (2024^[1]), *Global Revenue Statistics Database*, <https://www.oecd.org/en/data/datasets/global-revenue-statistics-database.html>; IMF (2024^[2]), *World Economic Outlook*, <https://www.imf.org/en/Publications/WEO/weo-database/2024/April>.

The tax mix needs reform to increase tax revenues

Thailand collects almost three-quarters of its total tax revenue from CIT, VAT and excise taxes (Figure 2.3 – Panel A). The combined revenue of these three taxes is 70% of total tax revenue in 2023. Revenue from the CIT (4.3% of GDP in 2023) has been stable over time and is, on average, larger than the CIT revenue in OECD countries (Figure 2.3 – Panel B). Thailand collects less VAT revenue (3.9% of GDP) than OECD and upper-middle-income countries (UMIC) due to a low standard VAT rate and a relatively narrow VAT base. Excise tax revenues are higher in Thailand (3.6% of GDP) than in peer countries due to the long list of products subject to excise taxes and the high excise tax collection performance. However, the combined revenues from VAT and excise taxes (7.5% of GDP) are significantly lower in Thailand than in OECD countries, on average (8.9% of GDP). PIT and SSC revenues account for only 2.9% of Thailand's GDP, well below the average of OECD countries (16.9% of GDP). High levels of informality and a large number of PIT deductions and allowances narrow the PIT and SSC base in Thailand. Property tax revenue in Thailand (0.4% of GDP) is significantly lower than that of the OECD on average (1.8% of GDP).

Figure 2.3. Tax mix benchmarking and evolution in Thailand and selected countries, 2000-23

Tax revenue as a % of GDP



Note: The averages for UMIC, HIC, and East Asia and Pacific are calculated based on 32, 14, and 23 countries, respectively, as included in the OECD Global Revenue Statistics Database. All data are from 2023, except for Japan and OECD average (2022 data), and HIC and UMIC averages (2021 data).

Source: OECD (2024^[1]), *Global Revenue Statistics Database*, <https://www.oecd.org/en/data/datasets/global-revenue-statistics-database.html>.

Significant additional tax revenue could be collected from VAT, PIT and SSC. Thailand raises more revenue from CIT, excise tax and other indirect taxes as a percentage of GDP than other UMICs (Table 2.1, Rows 1 and 2). However, Thailand has lower revenues as a percentage of GDP than most UMICs for SSC, PIT, VAT, and property taxes. An upper-bound estimate of the additional tax revenue potential by tax type is calculated as the absolute difference between tax revenue in Thailand and tax revenue in the top revenue-generating country of the UMIC group (Table 2.1, Row 3). Revenue estimates on concrete tax reform proposals from the literature are included in Table 2.A.1 in Annex 2.A.

Table 2.1. Thailand's tax revenue potential by tax

Indicator	Reference area	SSC	Direct taxes		Indirect taxes			Property taxes
			PIT	CIT	VAT	Excise taxes	Other indirect taxes	
Tax-to-GDP ratios	Thailand	0.7%	1.9%	3.9%	3.9%	3.9%	1.8%	0.2%
	UMIC average	2.4%	2.6%	3.5%	6.2%	1.8%	1.9%	0.6%
Additional tax revenue potential (% of GDP)	Thailand	+8.2 p.p.	+6.8 p.p.	+2.9 p.p.	+8.7 p.p.	+0.3 p.p.	+3.4 p.p.	+2.9 p.p.

Note: The first two rows indicate the tax-to-GDP ratios for Thailand and the UMIC average by tax type for 2021. The third row shows the distance between Thailand's tax-to-GDP ratio and the highest-performing country in the UMIC group. The colours indicate how Thailand ranks among the UMICs for each tax. The quintiles, from the first to the fifth, are represented respectively by the following colours in order: red, dark orange, light orange (median quintile), light green and dark green. For example, dark green indicates that Thailand ranks in the top fifth of countries in the UMIC group in terms of tax revenue mobilisation (Row 1), resulting in a lower potential for additional tax revenue for the specific tax. On the contrary, red indicates that Thailand ranks in the bottom quintile in the UMIC group, and there is large, untapped revenue potential for additional tax revenue for the specific tax.

Source: Authors' own elaboration based on OECD (2024^[1]), *Global Revenue Statistics Database*, <https://www.oecd.org/en/data/datasets/global-revenue-statistics-database.html>.

VAT is a key area for tax reform

VAT has high revenue potential

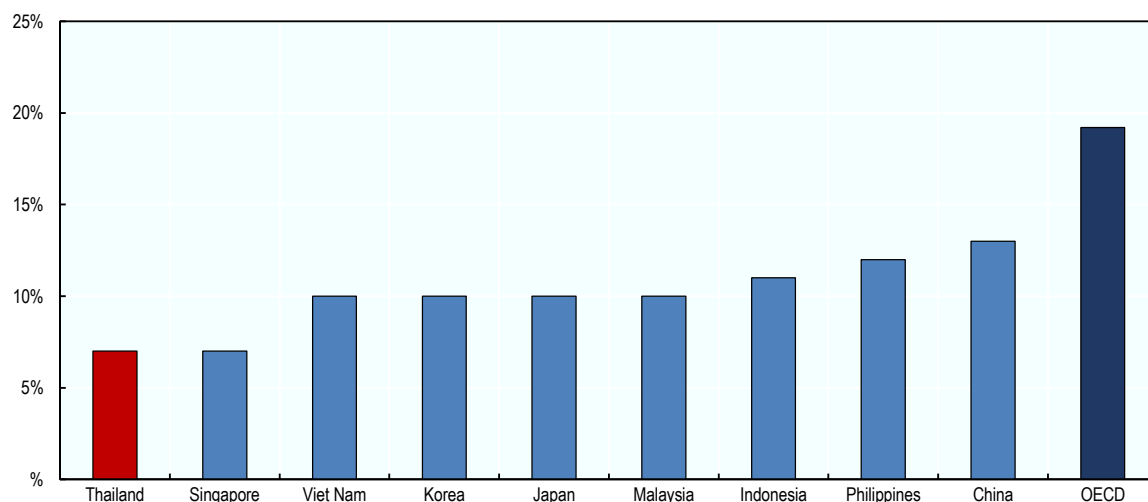
VAT raised 3.9% of GDP in Thailand in 2023. Although VAT is an important tax in Thailand's tax mix, revenue from VAT falls short of its full tax revenue potential. Thailand's approach of a low VAT rate and a relatively narrow base explains the low VAT revenues.

The VAT rate in Thailand is low, at 7%, compared to the rates of its regional peers (7-13%) and of the OECD on average (19.2%) (Figure 2.4). Although the statutory VAT rate in Thailand is 10%, the applicable rate has been reduced to 7% since 1992, with the exception of a brief increase during the Asian financial crisis (16 August 1997-31 March 1999). The return to the original rate of 10% has been postponed until September 2025. Recent reports have recommended that Thailand restore the 10% standard rate [e.g. World Bank (2023^[3]), OECD (2023^[4]), IMF (2024^[5])]. The Thai Ministry of Finance has recently proposed increasing the VAT rate to 15%. However, raising the VAT rate in Thailand faces difficulties due to political and economic factors.

VAT exemptions narrow the tax base. Exemptions include agricultural products, basic unprocessed food products, newspapers and magazines, educational, cultural and liberal professional services and domestic transport (Box 2.1), many of which are not standard practice in OECD countries (OECD, 2022^[6]). VAT-exempt products and services play an important role in the Thai economy. In fact, the World Bank estimates that the value added from VAT-exempt products and services accounts for about 19% of GDP (World Bank, 2023^[3]).

Figure 2.4. Standard VAT rates in Thailand and selected countries, 2022

VAT rates in %, 2022



Note: The Thai standard VAT rate in the Revenue Code is 10%, but it has been reduced to 7% since 1999 by a Royal Decree.

Source: Data adapted from OECD (2022^[6]), *Consumption Tax Trends 2022: VAT/GST and Excise, Core Design Features and Trends*, <https://doi.org/10.1787/6525a942-en>.

Box 2.1. VAT exemptions in Thailand

According to the **Thai Revenue Code Section 81**, the following products and services are exempted from VAT:

Section 81 (1): Sales of goods and provisions of services as follows:

- agricultural products (unprocessed), including e.g. white rice, fruits, vegetables, eggs, milk, etc.
- alive or dead animals, including e.g. meat and fish
- fertilisers
- fish meal, animal feed
- pharmaceutical or chemical products used on plants or animals
- newspaper, magazines, school books
- educational services of public and private educational institutions
- cultural and art services
- services in medical treatment, accounting, legal or other liberal professional services
- medical services of health institutions
- research or academic services
- services of a library, museum or zoo
- services under an employment contract
- services for organising amateur sports
- services by a public entertainer
- domestic transport
- international transport, excluding transport by aircraft or ship
- rental of immovable property
- service of local authority, excluding commercial services of local authority or service generating income or benefit, whether it is an infrastructure business or not
- goods and services of a ministry that remits all revenue to the State without deducting expenses
- goods and services for the benefit of religious and public charity in Thailand (non-profit)
- goods and services described in Royal Decree No. 239.

Section 81 (2): Imports of the following goods are VAT-exempt:

- imported goods under Revenue Code 81. (1) a)-f)
- goods imported into customs-free zones, which are exempt from import duty
- goods classified as import duty exempt
- goods kept and returned by customs officials.

Section 81 (3): Export of goods or services by VAT registrant, which is required to pay VAT under Section 82/16.

Section 81/1: Small businesses with an annual turnover of less than THB 1.8 million (Thai baht) are exempt from VAT.

Royal Decree No. 239 B.E. 2534 (1991) exempts the following transactions from VAT:

- special-purpose vehicles
- goods and services traded within the Thai-Malaysia Joint Development Area
- sales of assets of state enterprises
- sale of diesel under a fuel trader
- radio transmission services, air transportation, weather forecasting
- cigarettes produced by a state organisation
- government lottery
- postal stamps, duty stamps or any other stamps
- donations for government hospitals or schools.

Source: Thai Revenue Code; IBFD (2024^[7]), *Country Tax Guides*.

To realise its VAT revenue potential, Thailand could increase the standard VAT rate and broaden the VAT base by reducing exemptions. Increasing the standard VAT rate may be politically difficult, but it is the most effective way to increase VAT revenues. Additionally, VAT exemptions for services in liberal professions and basic unprocessed food could be abolished. However, regarding the elimination of the exemption for basic unprocessed food, a compensation mechanism for the most vulnerable should be implemented, either through monthly cash transfers or the immediate reimbursement of VAT to eligible low-income consumers.

Recent studies have estimated that increasing the VAT rate from 7% to 10% and eliminating some of the VAT exemptions can increase VAT revenue by 2.4 percentage points of GDP (World Bank, 2023^[3]). The increase in the VAT rate alone can raise an additional 1.5-1.8 percentage points of GDP in tax revenue, while the removal of VAT exemptions on general consumer goods and services can raise an additional 0.6 percentage points of GDP in tax revenue (World Bank, 2023^[3]).

Thailand has taken the first steps to broaden the VAT base. For example, in 2021, Thailand brought digital services provided by foreign platform operators within the scope of the VAT (World Bank, 2023^[3]). In less than a year, Thailand collected about 0.04% of GDP (THB 5.9 billion) in revenue from this base-broadening measure. Extending the VAT on e-commerce to all digital services provided by domestic and foreign businesses would raise +0.2% of GDP in additional tax revenue (World Bank, 2023^[3]). In addition, in May 2024, the Thai prime minister announced the removal of VAT exemptions for low-value imported goods (below THB 1 500), which will now be taxed at the 7% VAT rate.

Tax administration reforms can reduce VAT evasion

VAT evasion results in a significant loss of tax revenue. The tax administration's main concerns are VAT fraud from the use of false input invoices, under-reporting of sales, non-registration of businesses and false export declarations. The Revenue Department could strengthen the oversight and audit procedures for businesses with a high risk of non-compliance; use cross-verification systems to compare reported sales and purchases between suppliers and buyers; use data from e-commerce platforms to identify fraudulent taxpayers; and promote electronic invoicing to track transactions to increase VAT compliance.

A VAT compliance gap analysis can help identify the difference between the potential VAT revenue under full compliance and the actual VAT collected. The VAT gap provides an estimate of the VAT

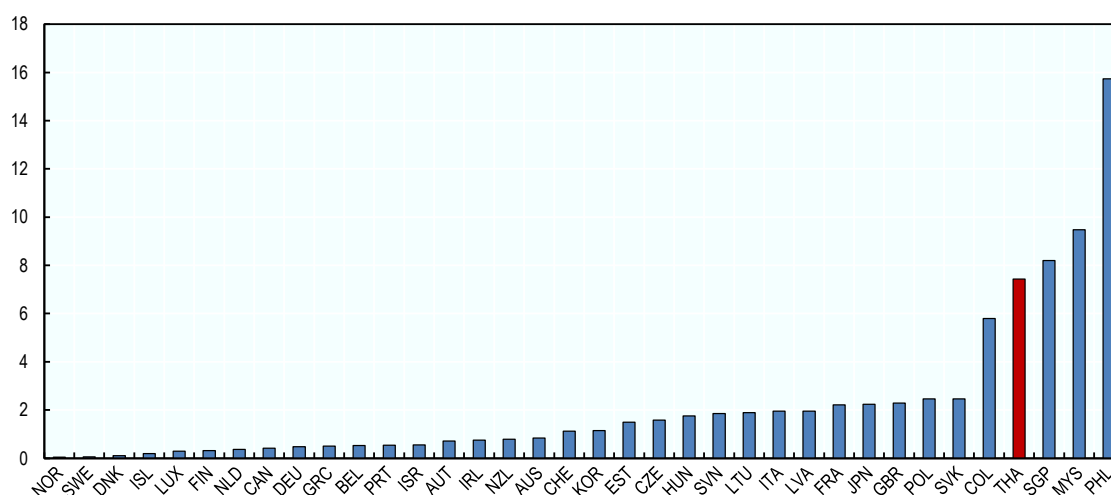
revenue lost due to non-compliance. This estimate can be approached either by a top-down approach using national accounts data or a bottom-up approach based primarily on audit data. Assessing the VAT compliance gap by firm size and sector can help to develop targeted policy interventions and reform strategies to enhance VAT efficiency and revenue performance.

The VAT registration threshold is high

Around 30% of the firms in Thailand are below the VAT registration threshold (Muthitacharoen, Wanichthaworn and Burong, 2021^[8]). The VAT registration threshold in Thailand has been set at THB 1.8 million in annual turnover (approximately USD 51 000 [US dollars]) since 2005. The threshold is much higher in Thailand than in OECD countries when expressed as a multiple of GDP per capita (Figure 2.5). However, other peer countries in Asia have even higher VAT registration thresholds (e.g. Singapore, Malaysia, the Philippines and Indonesia). High VAT thresholds are likely to increase the degree of supply chain segmentation between VAT-registered and non-VAT-registered firms (Brockmeyer et al., 2024^[9]). Non-registered firms also tend to have lower productivity than registered firms.

Figure 2.5. VAT registration threshold in Thailand and selected countries, 2022

VAT registration threshold, measured in multiples of GDP per capita, 2022 or latest year



Note: The VAT registration threshold in Indonesia (IDR 4.8 billion [Indonesian rupiah]) is not displayed, as it is as high as 67 times the GDP per capita.

Source: Adapted from OECD (2022^[6]), *Consumption Tax Trends 2022: VAT/GST and Excise, Core Design Features and Trends*, <https://doi.org/10.1787/6525a942-en>. Information on Colombia, Thailand, Singapore, Malaysia and the Philippines added from IBFD (2024^[7]), *Country Tax Guides*.

Nonetheless, a significant number of firms below the threshold have opted for voluntary registration. Thai businesses with turnover below the VAT threshold can register voluntarily for VAT, which allows them to recover VAT on their inputs. As a result, they can price their goods or services more competitively and trade with larger VAT-registered firms, which typically require VAT compliance from their suppliers. About 40% of firms below the threshold voluntarily registered in 2014-17 (Muthitacharoen, Wanichthaworn and Burong, 2021^[8]). De-registration is possible if the firm's turnover drops below the VAT registration threshold in subsequent years. As many firms below the threshold register voluntarily, lowering the threshold may not meet with strong business opposition. However, it is important to ensure that the capacity of the tax administration allows it to audit a larger number of VAT-registered businesses.

Setting the right VAT threshold is a trade-off between minimising compliance and administrative costs for small and medium-sized enterprises (SMEs), protecting revenue and avoiding competitive distortions (OECD, 2022^[6]). The main reason for not requiring SMEs to register for VAT is that the small amount of VAT revenue collected is disproportionate to the high administrative and compliance costs. The VAT threshold can act as a disincentive for businesses to grow or as an incentive to under-report and stay below the threshold. A relatively high threshold gives an advantage to small businesses while distorting competition with larger businesses. A lower threshold requires more capacity in the tax administration to audit and supervise a larger number of VAT-registered businesses. Determining the exact level of a VAT threshold is challenging and requires an in-depth analysis of microdata. If there is a presumptive tax regime to encourage formalisation, the VAT registration threshold would ideally be aligned with the eligibility threshold of this regime (see Chapter 4).

Thailand could collect more revenue from corporate income taxes

Revenue from the CIT amounted to 4.3% of Thailand's GDP in 2023. Corporate profits and capital gains are taxed under the CIT at a rate of 20% in Thailand, which is lower than the average CIT rate in the East Asia and Pacific region (24%). SMEs¹ benefit from reduced marginal CIT rates of 0% or 15%. Similar to a progressive PIT schedule, taxable profits up to THB 300 000 are taxed at a 0% rate; taxable profits between THB 300 000 and THB 3 million are taxed at a 15% rate; and profits above THB 3 million are taxed at the 20% standard rate.

Thailand can broaden its CIT base and collect more revenue. Thailand has a generous investment tax incentive regime (with many tax holidays), which lowers the effective tax rates for many domestic and foreign companies (OECD, 2025^[10]; 2021^[11]). Streamlining the generous and complex system of tax incentives could mobilise additional domestic revenues if tax incentives are redesigned in a way that manage to generate additional investment and economic growth that generates additional tax revenues. The Global Minimum Tax (GMT), in particular the Qualified Domestic Minimum Top-up Tax (QDMTT), could further strengthen the domestic corporate income base by ensuring that multinational enterprises (MNEs) pay a minimum tax on their excess profits. Box 2.2 discusses the costs and benefits of tax incentives, along with relevant empirical evidence on their efficiency and effectiveness

Box 2.2. Costs and benefits of investment tax incentives

The potential benefits of investment tax incentives must be balanced against their costs. Tax incentives aim to stimulate investment that would not have taken place without an incentive (additional investment). If successful, tax incentives could increase investment, economic growth and revenue collection over time. However, if poorly designed, tax incentives can provide windfall gains to projects that do not require government support, cause market distortions or negative spillovers (including by “picking winners”), and potentially have high costs to the government in revenue foregone.

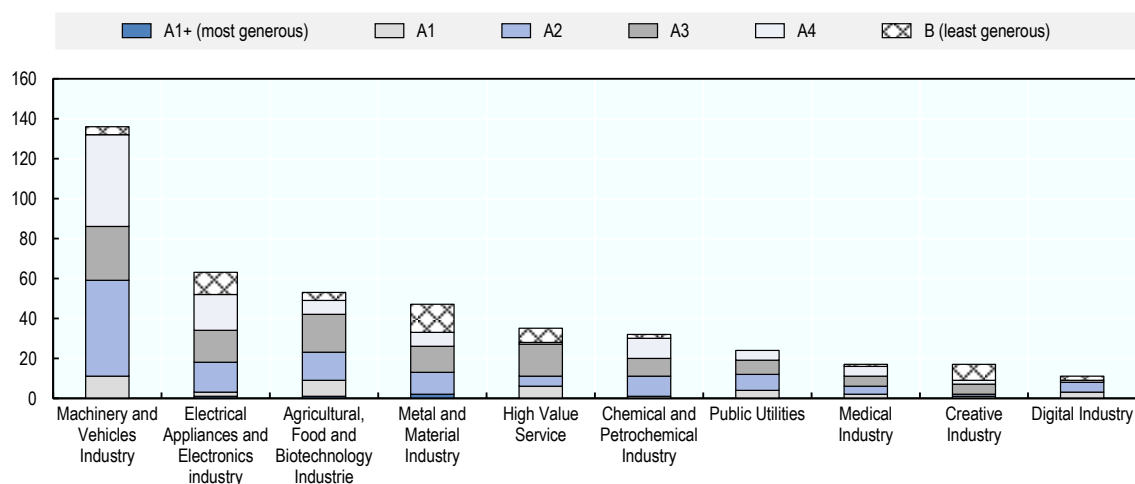
Empirical evidence indicates that expenditure-based tax incentives are more effective in achieving their objectives than profit-based incentives. Tax exemptions and reduced rates often provide firms with windfall gains, i.e. grant tax incentives for projects that would have occurred without the incentive (IMF-OECD-UN-World Bank, 2024^[12]; OECD, forthcoming^[13]; van Parys and James, 2010^[14]; Klemm and Van Parys, 2012^[15]). On the other hand, tax incentives that provide preferential tax treatment to expenditure (tax allowances and credits) are generally found to be more efficient at stimulating additional investment and more cost-effective than those that provide relief to income (House and Shapiro, 2008^[16]; Zwick and Mahon, 2017^[17]; Maffini, Xing and Devereux, 2019^[18]; Ohrn, 2019^[19]; Rodgers and Hambur, 2018^[20]). There is evidence that tax incentives have a limited effect on investment in cases of policy uncertainty or other investment climate concerns (James, 2009^[21]; Kinda, 2018^[22]; Andersen, Kett and von Uexkull, 2017^[23]; Ghazanchyan, Klemm and Zhou, 2018^[24]).

Revising Thailand's generous income-based corporate tax incentives could lead to significant domestic revenue mobilisation

Thailand's investment tax incentive policy is targeted at specific activities, with tax holidays dominating the incentive regime (OECD, 2025^[10]; 2021^[11]). The Thai Revenue Department of the Ministry of Finance manages tax incentives. However, many investment tax incentives and special economic zones (SEZs) are administered by the Thai Board of Investment (BOI), beyond the control of the Ministry of Finance (BOI, 2025^[25]). In order to ensure effective governance of tax incentive regimes, co-ordination between the respective institutions responsible for the design and administration of the tax incentives is essential. Thailand provides incentives based on both the type of business activity (activity-based tax incentives) and incentives based on other characteristics or “merits” of an investment project (merit-based tax incentives). High technology investment projects (Group A, according to BOI Announcement No. 9/2565 [2022]) benefit from tax holidays with a duration of 3-13 years, depending on the intensity of their use of high technology (BOI, 2023^[26]). Thailand offers additional tax holidays of 1-5 years (in addition to the tax holidays granted under the activity-based incentives) for investment projects that focus on improving competitiveness, strengthening regional development and developing industrial zones (OECD, 2021^[11]). Tax allowances include allowances for firms in 20 low-income provinces to promote decentralisation. There also exists a tax allowance for expenditures for transport, electricity and water supply, which doubles the available tax deduction for ten years (Announcement of the BOI No. 8/2565 [2022]). Figure 2.6 shows the number of promoted activities by sector and incentive scheme, with category A1+ incentives providing the longest tax holidays (10-13 years) and category B incentives being the least generous [as defined by the BOI (2025^[25])]. In the absence of information on the actual investment projects that are supported, this figure provides an overview of the sectors to which most tax incentives are directed.

Figure 2.6. Activity-based tax incentives in Thailand, 2025

Number of promoted activities in the *Investment Promotion Guide 2025*, by sector and incentive scheme



Note: Activities in different industries are eligible for tax incentive schemes (A1+ to B) as defined by the BOI (2025^[25]). The main difference between the different incentive schemes is the number of years of tax holidays. Activities under the A1+ incentives scheme (most generous) use high technology and benefit from 10-13 years of CIT exemption without being subject to an exemption cap. Activities under the B scheme (least generous) do not benefit from basic tax holidays but are eligible for additional tax holidays of 1-5 years under the merit-based incentive scheme.

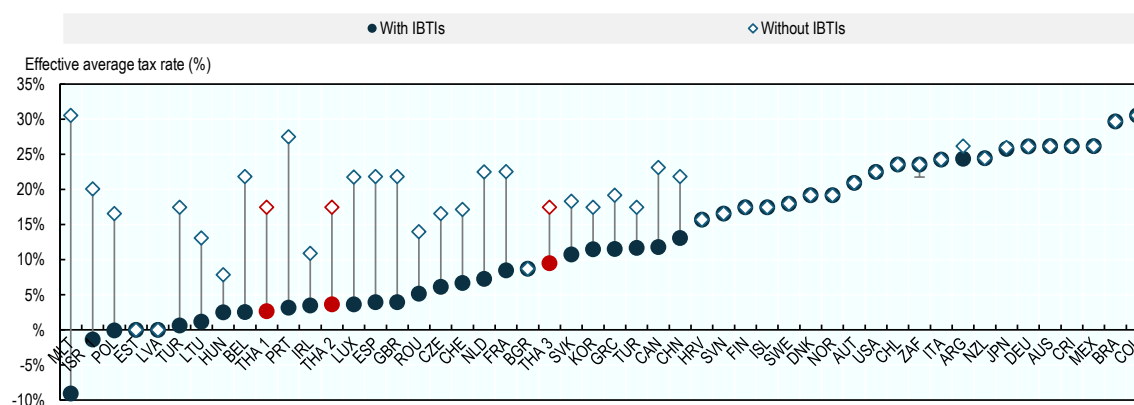
Source: Adapted from OECD (2021^[11]), *OECD Investment Policy Reviews: Thailand*, <https://doi.org/10.1787/c4eeec1c-en> and updated with data from BOI (2025^[25]), *Investment Promotion Guide 2025*.

Thailand has additional special tax treatment for domestic and foreign companies in SEZs. A prominent Thai SEZ is the Eastern Economic Corridor, which targets firms with activities in science, technology, human resource development and research and development (R&D). Other special economic corridors (Northern Economic Corridor, Northeastern Economic Corridor, Central–Western Economic Corridor, and Southern Economic Corridor) have similar designs and focus on targeted industries, such as agro-food, bio-industries, tourism, digital and electronics (BOI, 2023^[26]). Firms located in these zones benefit from additional income-based tax incentives (partial or full income tax exemption) or expenditure-based tax allowances.

Income-based tax incentives can significantly reduce average effective tax rates. Figure 2.7 shows the average effective tax rates on R&D intangibles with and without taking into account the available income-based tax incentives in OECD countries and selected emerging economies, including Thailand. Without accounting for tax incentives, the forward-looking average effective tax rate in Thailand for a profitable investment project in an R&D intangible taxed under the standard tax system is 17.5%, which is only slightly lower than the statutory CIT rate of 20%. However, when income-based tax incentives are taken into account, the average effective tax rate drops significantly in many countries, including Thailand (Figure 2.7). For example, the effective tax rate for firms investing in R&D intangibles in Thailand is only 2.6% for qualified international business centres, 3.6% under the performance-based tax incentive scheme and 9.5% under the activity-based tax incentive scheme (OECD, 2024^[27]).

Figure 2.7. Effective average tax rates for internally generated R&D intangibles in Thailand and selected countries, 2023

With and without income-based tax incentives (IBTI) for R&D and innovation, 2023



Note: For Thailand, three income-based tax incentive regimes for R&D intangibles are displayed: THA 1 refers to the investment promotion incentives granted to eligible international business centres under Royal Decree No. 674 2561 (2018); THA 2 refers to the most generous merit-based tax incentive, and THA 3 refers to the most generous activity-based tax incentive as announced by the Board of Investment (BOI). The most generous regime is displayed for the other countries.

Source: OECD (2024^[27]), "Effective tax rates for income-based tax incentives", in *Corporate Income Tax Rates Database*, <https://www.oecd.org/en/data/datasets/corporate-income-tax-rates-database.html>.

Thailand does not publish an annual tax expenditures report. An annual tax expenditure report is essential to provide a comprehensive overview of all tax expenditures that apply to different tax bases and beneficiaries and, ideally, to assess how much revenue is foregone due to tax expenditures, including tax exemptions, tax allowances, tax deductions, tax credits and accelerated tax depreciation. The BOI publishes an annual guide on the available investment tax incentives (BOI, 2023^[26]). Under the Fiscal Discipline Act, the Revenue Department must report on tax expenditures annually to the Ministry of

Finance. However, the tax expenditure assessment is not published as part of the annual budget cycle and, therefore, cannot be used for public policy evaluation and transparency. To effectively inform tax policy, it is essential that this report includes information on the tax revenue foregone for each individual tax expenditure. In the longer term, the publication of a separate tax expenditure report could also include an assessment of whether selected tax expenditures achieve their objectives in relation to the costs incurred and an assessment of the distribution of tax revenue foregone across gross income deciles.

The long list of tax holidays suggests a large amount of tax revenue foregone. The BOI produces estimates of revenue foregone for corporate tax incentives for firms that file tax returns. However, these estimates are not published and exclude firms exempt from filing. Revenue foregone estimates are not produced for VAT tax expenditures. There is a particular need to quantify more precisely the revenue foregone from Thailand's tax incentive schemes and to assess their effectiveness. Thailand is advised to streamline its multiple incentive schemes to improve targeting and minimise costs (IMF, 2019^[28]).

Thailand has taken important steps towards international tax reforms

Thailand has taken important steps to implement the GMT. Through a co-ordinated set of interlocking rules, the GMT ensures that large MNEs – with annual global revenues greater than EUR 750 million (euros) – pay a minimum effective tax rate of 15% on their excess profits, wherever they operate globally. Where the MNE pays an effective tax rate below the minimum rate of 15%, a top-up tax is due to bring the effective tax rate up to the minimum rate. This top-up tax will either be paid in the jurisdiction where the profits are under-taxed or – if that jurisdiction does not implement the rules – in another jurisdiction that has implemented the GMT. In January 2025, Thailand implemented legislation on the three components of the GMT: a QDMTT, an Income Inclusion Rule (IIR), and an Undertaxed Profits Rule (UTPR).

The introduction of a top-up tax (QDMTT) has the potential to raise revenue. The OECD has worked closely with Thailand to support their estimates of the economic impact of the GMT, based on both aggregate and firm-level data analysis. These estimates suggest that introducing a QDMTT would raise significant tax revenue. This reflects the strong presence of in-scope MNEs in Thailand, many of which benefit from effective tax rates below 15% due to the range of tax incentives offered by Thailand.

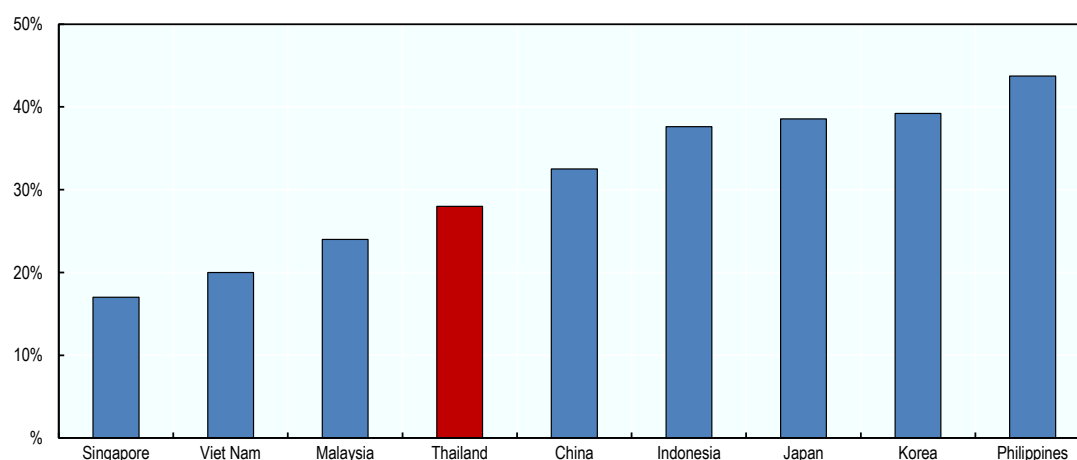
A review of the impact of tax incentives, particularly in relation to under-taxed profits, could provide valuable policy insights. Tax and non-tax incentives remain an important tool for attracting investment in Thailand. While the implementation of a QDMTT will help ensure that Thailand does not lose top-up tax revenue to other implementing jurisdictions, the GMT provides an opportunity to review the current design of tax incentives and assess whether they are effective and efficient. The GMT is designed to reduce the pressure on jurisdictions to offer overly generous incentives to already profitable companies, such as broad-based tax exemptions that can grant windfall gains to investors and result in substantial tax revenue foregone. On the other hand, tax incentives that successfully attract real economic substance can remain effective under the GMT, as can certain other tax incentives (including those that create timing differences). The GMT applies to excess profits, determined after deducting the substance-based income exclusion (SBIE) from its jurisdictional income.² Many of Thailand's tax incentives have substance requirements, including minimum investment and employment thresholds. The firm-level analysis conducted by Thailand in collaboration with the OECD indicates that some in-scope MNEs have high levels of employment and investment in tangible assets in Thailand, which will allow them to continue to benefit from effective tax rates below 15%.

There is potential to increase the dividend withholding tax

There may be some scope for a small increase in the dividend withholding tax. The dividend withholding tax rate on distributed profits in Thailand is 10%. Tax-resident individuals who receive dividends from a company incorporated in Thailand can choose to include the dividend income in their PIT return and receive a tax credit equal to one-quarter of the dividend income to be applied against their PIT liability. This option can appeal to taxpayers in lower income brackets under the PIT regime, as they can lower their total tax burden by opting for the tax credit. Alternatively, taxpayers can decide not to include the dividend income in their PIT return and not receive a tax credit. Consequently, dividend income is subject to a maximum withholding tax rate of 10%. Under this latter option, the effective tax rate on dividend income is the combined tax rate paid by the company (20% on profits) and the shareholder (10% on the dividend). This implies an effective tax rate of 28%³ on dividend income for individual residents in Thailand, which is low compared to other peer countries in Asia (Figure 2.8). This suggests there may be room for an increase in the dividend withholding tax. More in-depth microdata analysis is needed to assess the potential impact of such a reform.

Figure 2.8. Effective tax rates on dividend income in Thailand and selected countries, 2024

Combined rates of CIT and dividend withholding tax



Note: The effective tax rate on dividend income for corporations is calculated as $\tau_{CIT} + (1 - \tau_{CIT}) \cdot \tau_{WHT}$, where τ_{CIT} is the CIT rate and τ_{WHT} is the dividend withholding tax rate.

Source: OECD (2024^[27]), *Corporate Income Tax Rates Database*, <https://www.oecd.org/en/data/datasets/corporate-income-tax-rates-database.html>.

Property tax reform could enhance revenue mobilisation while reducing inequality

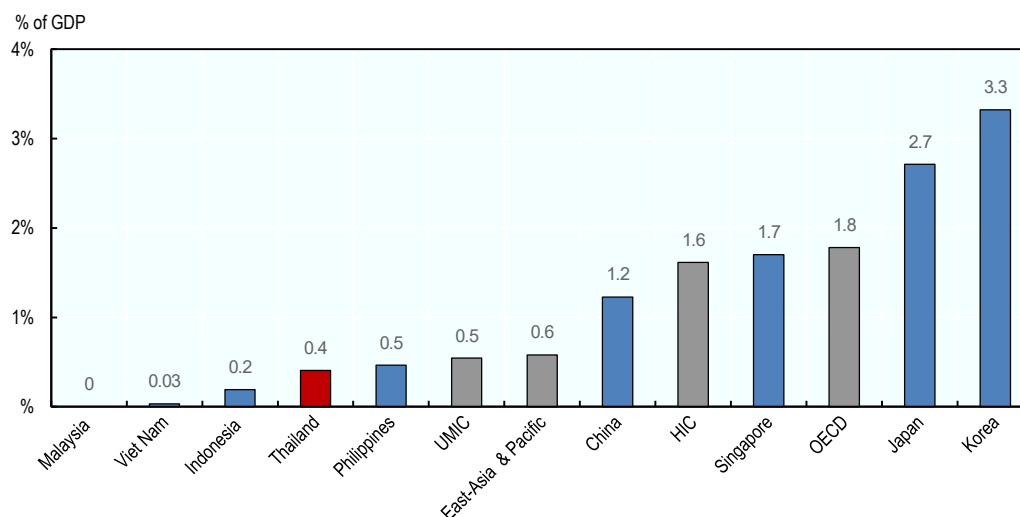
Property taxes account for 0.4% of Thailand's GDP, which is well below the OECD average (1.8% of GDP). Property taxes include recurrent taxes on immovable property, recurrent taxes on net wealth, and estate, inheritance and gift taxes. Property tax revenues account for as much as 3.3% of GDP in Korea and 2.7% in Japan, while the UMIC average is 0.5% of GDP (Figure 2.9). The recurrent property tax is a very stable source of tax revenue for local governments that creates little economic distortion. Simplification and digitalisation of the property tax system are key for sustainable revenue mobilisation and lower administrative costs in the long run. However, as social assistance programmes are financed by

central government revenues, recurrent property tax collected at the local level does not directly impact the central social protection budget.

Thailand could raise an additional 0.1 to 0.3 percentage points of GDP in property tax revenue once the Lands and Buildings Tax reform is fully implemented (OECD, 2023^[4]; World Bank, 2023^[3]; ILO et al., 2022^[29]). Thailand's property tax system was reformed in 2019 with the introduction of the new Lands and Buildings Tax Act. Due to the coronavirus (COVID-19) pandemic, the implementation of the reform was delayed, and generous property tax discounts were provided (90% rate cuts in 2020 and 2021, 15% rate cuts in 2023). In addition, to improve the administration of property tax collection, the assessed value of immovable property needs to be updated regularly and linked to market values. Currently, Thailand only updates the property values every four years. Similarly, the cadastral system needs to be digitalised and updated regularly and systematically.

Figure 2.9. Property tax revenue in Thailand and selected countries, 2023

Property tax revenue as a % of GDP, 2023 or latest year



Note: The property tax-to-GDP ratios for Japan and the OECD average refer to data from 2022, the UMIC and HIC averages refer to data from 2021. Property taxes include recurrent taxes on immovable property, recurrent taxes on net wealth, estate, inheritance and gift taxes, among others (OECD Revenue Statistics classification).

Source: OECD (2024^[1]), *Global Revenue Statistics Database*, <https://www.oecd.org/en/data/datasets/global-revenue-statistics-database.html>.

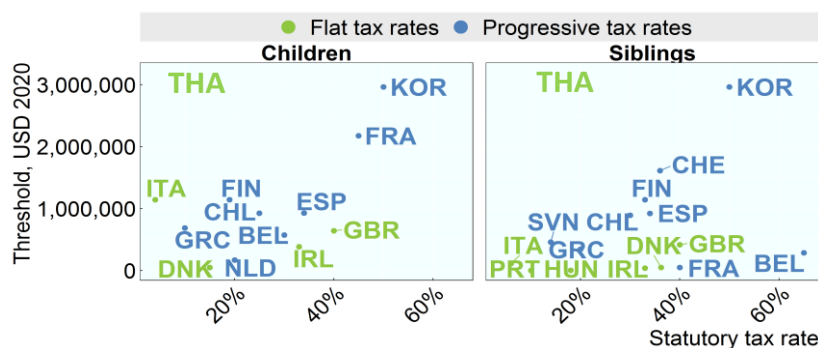
Inheritance, estate and gift taxes often raise little revenue but support the progressivity of the tax system. In Thailand, as in most OECD countries, revenue from inheritance, estate, and gift taxes is low (0.003% of GDP compared to 0.15% of GDP in OECD countries, on average). However, some countries, such as Japan and Korea, collect higher amounts of revenue from inheritance taxes – 0.5% and 0.7% of GDP, respectively (OECD, 2024^[1]). Taxes on the transfer of wealth, such as inheritance and gift taxes, can be effective in reducing net wealth inequalities and increasing the progressivity of the overall tax system. Compared to other taxes on wealth, inheritance and gift taxes can be effective in reducing inequality without compromising economic efficiency (OECD, 2023^[4]; 2021^[30]).

Differences in inheritance and gift tax rates can create opportunities for arbitrage (OECD, 2023^[4]; Siriprapanukul, 2014^[31]). Thailand introduced inheritance and gift taxes in 2015, setting rates at 10% and 5%, respectively (Inheritance Tax Act B.E. 2558). Aligning the rates of inheritance and gift taxes can help achieve neutrality between wealth transfers during life and at death (OECD, 2023^[4]). On the other hand, lower tax rates for gifts may induce wealthy households to give away part of their wealth earlier in time. This could result in the more productive use of these assets.

A relatively low inheritance tax rate (10%) in Thailand reconciles revenue, equity and efficiency objectives, in particular when the tax base is broad. Of OECD countries, 7 have flat inheritance tax rates like Thailand, while 15 countries have progressive inheritance tax rates (OECD, 2021^[30]) (Figure 2.10). Thailand's inheritance tax rate is flat at 10% (for all heirs, including siblings), but a reduced rate of 5% is granted to direct descendants and parents. Of OECD countries, only Italy has lower flat inheritance tax rates for children (4%) and siblings (6%) than Thailand. Among Asian peer countries, only Japan, Korea and Viet Nam have inheritance and gift taxes. While Japan and Korea levy progressive rates that range between 10% and 55%, Viet Nam has a flat inheritance tax rate and fully exempts spouses and descendants (IBFD, 2024^[7]). The inheritance tax threshold of THB 100 million (approximately USD 3 million), above which inheritance tax is levied in Thailand, is extremely high compared to the exempt amounts that apply in OECD countries. Thailand could consider lowering the inheritance tax exemption threshold to broaden the base while maintaining its low rate.

Figure 2.10. Inheritance taxes in Thailand and selected countries, 2020

Maximum statutory inheritance tax rates and applicable threshold (USD), donor's children and siblings, 2020



Note: Applicable thresholds are reported in USD 2020. The plot does not display Japan (max. rate=55%, threshold=USD 5 956 474) and the United States (maximum rate=40%, threshold=USD 11 580 000).

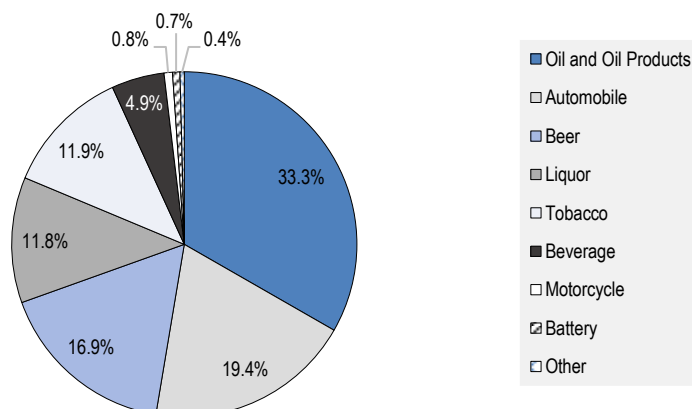
Source: Adapted from OECD (2021^[30]), *Inheritance Taxation in OECD Countries*, <https://doi.org/10.1787/e2879a7d-en>. The authors have added Thailand.

Thailand has made significant progress in the area of health taxation

Excise taxes are levied on a wide range of products, particularly those harmful to public health and the environment. Thailand's excise taxes mobilised 3.6% of GDP in revenue in 2023. Health excise taxes levied on alcohol, tobacco and beverages account for 45% of all excise tax revenue (Figure 2.11). Excise duties on petroleum products and motor vehicles together accounted for more than half of Thailand's total excise tax revenue (about 2% of GDP) in 2022.

Figure 2.11. Excise tax collection in Thailand, by product, 2022

Excise tax revenue as a % of total excise tax revenue, 2022

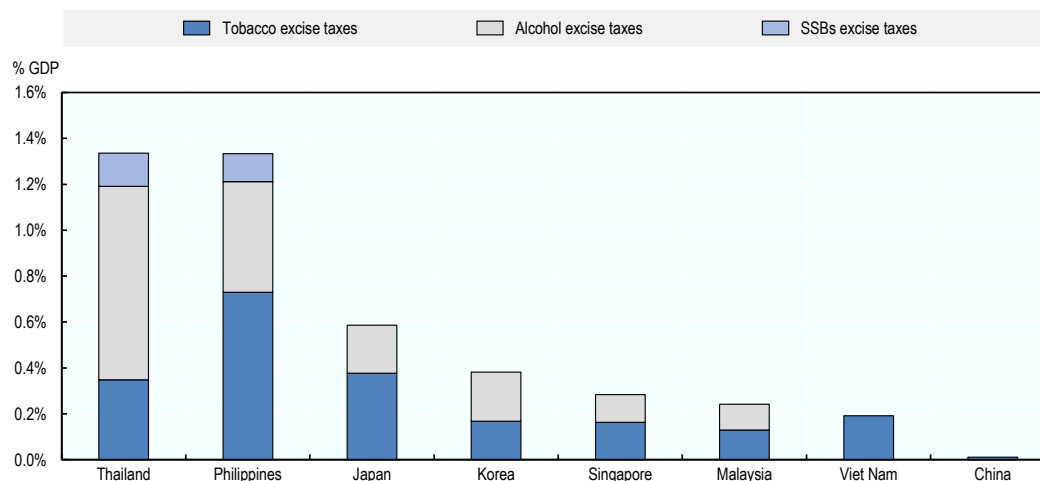


Source: Data adapted from Thai Excise Department (2023^[32]), *Annual Report of the Excise Department for the Year 2022*.

Thailand collects the highest share of health excise tax revenue (1.3% of GDP) compared to its Asian peers (Figure 2.12). Alcohol excise taxes are the largest source of health tax revenue in Thailand (0.8% of GDP). However, the revenue is lower than the economic and healthcare costs of alcohol consumption [0.97% of GDP due to premature death, 0.03% of GDP due to healthcare costs (Luangsinsiri et al., 2023^[33]) and costs related to lower productivity]. Over the past decade, tobacco excise tax revenue has proven to be a stable source of revenue for Thailand, generating an average of 0.3% of GDP. However, this revenue remains below the estimated health, economic and social costs of tobacco consumption (ADB, 2022^[34]). Thailand has introduced a tax on sugar-sweetened beverages (SSBs), which generates revenue of 0.15% of GDP.

Figure 2.12. Health tax revenues in Thailand and selected countries

Health excise tax revenue as a % of GDP in Asian countries, 2022 or latest year



Note: Malaysia has an SSB excise tax in force, but disaggregated revenue data from this tax is not publicly available. National data sources have been used for Thailand and the Philippines.

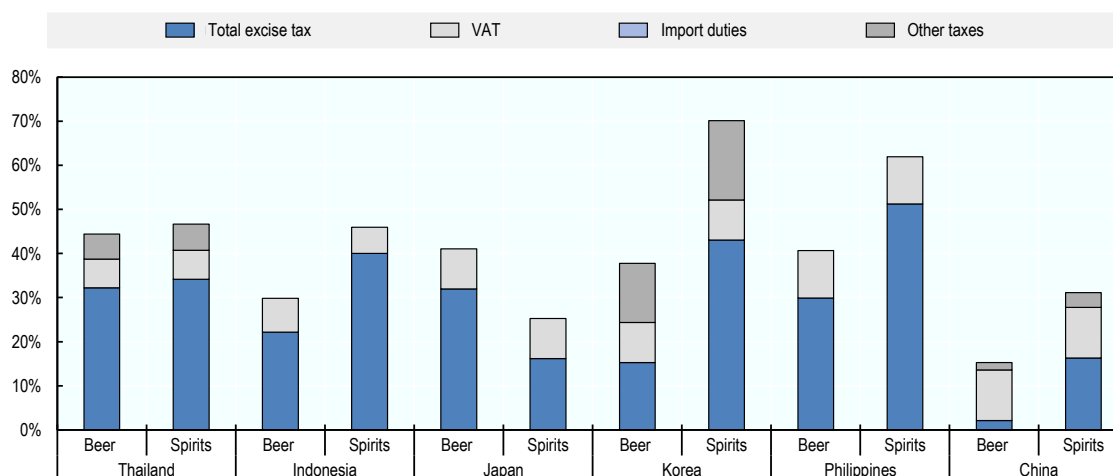
Source: Data adapted from OECD (2024^[11]), *Global Revenue Statistics Database*, <https://www.oecd.org/en/data/datasets/global-revenue-statistics-database.html>, WHO (2023^[35]), *WHO report on the global tobacco epidemic*, <https://www.who.int/publications/i/item/9789240077164>, and national sources.

Excise tax rates on alcohol could be increased. Thailand has a mixed excise tax system for alcohol products. *Ad valorem* tax rates range from 0% for fruit wine and some liquors, 5% for grape wine, 10% for higher alcoholic spirits and 22% for beers. The specific tax varies between THB 150 and THB 1 000 per litre of alcohol. In 2024, the *ad valorem* excise tax rates on wine were reduced from 5% to 0% for fruit wine and from 10% to 5% for grape wine. Reducing tax rates on alcoholic beverages consumed mainly by tourists could lead to a decrease in health tax revenues if it does not lead to a significant increase in consumption, making such a measure inadvisable. Overall, there may be scope for increasing excise tax rates on alcohol in Thailand, particularly on spirits (Figure 2.13).

Thailand's tobacco excise tax structure follows many World Health Organization (WHO) best practices (7/12) but could still be improved to reduce tobacco consumption (Table 2.2; Annex 2.B). In 2022, 19% of adults and 37% of males regularly used tobacco. Thailand closely follows the following WHO best practices: the tobacco tax mix relies predominantly mostly (75%) on excise taxes (Best Practice [BP] 2); the excise tax structure is mixed, with a greater reliance on the specific tobacco excise tax component (BP3); all traditional tobacco products are subject to a tobacco excise tax (BP4); the sales of new tobacco and nicotine products are banned (BP5) – despite this ban, illegal sales are increasing and calls for stronger tobacco control; the specific excise tax is levied on each stick of tobacco product (BP7); tobacco excise tax rates are mostly uniform, except for cigarettes, which are taxed with a two-tier *ad valorem* tax rate based on the retail price (BP9); and comprehensive sales regulations are in place to increase the effectiveness of tobacco taxes (BP12). However, the design of tobacco excise taxes also deviates from WHO's good practice. First, cigarettes have not become less affordable over the period 2012-22, despite an increase in the share of total indirect taxes as a percentage of the retail price of the most sold brand of cigarettes (over 80% in 2022) (BP1); the *ad valorem* excise tax is not levied on the observed retail price but on the retail price suggested by the manufacturer/importer (BP6), which is lower than the final retail price; tobacco products, which are subject to the same excise tax structure, have different statutory tax rates (BP8) – for example, roll-your-own cigarettes have a very low tax share (36% of the retail price of the most smoked tobacco product), which induces smokers to buy these cigarettes rather than reduce or quit smoking; the specific excise tax is not indexed for inflation (BP10); and there is no excise tax floor that would ensure that a minimum amount of tax is paid on the *ad valorem* component (BP11).

Figure 2.13. Total tax share on alcoholic beverages in Thailand and selected countries, 2022

Tax share as % of the retail price of the most sold brand of beer and the most sold type of spirit, 2022



Note: The data displayed above are from 2022 and have not been updated to reflect the 2024 alcohol excise tax reform in Thailand. No data were available for Malaysia, Singapore or Viet Nam.

Source: WHO (2024^[36]), *Global Health Observatory*, <https://www.who.int/data/gho>.

Table 2.2. Overview of Thailand's implementation of the WHO best practices on tobacco tax policy, 2023

Affordability (BP1)	Type of taxes (BP2)	Excise tax structure (BP3)	Taxable products		Excise tax base		Excise tax rate		Indexation (BP10)	Tax floor (BP11)	Sale regulation (BP12)
			(BP4)	(BP5)	(BP6)	(BP7)	(BP8)	(BP9)			
Minimal measure	Complete measure	Moderate measure	Complete measure	Complete measure	Minimal measure	Complete measure	Minimal measure	Moderate measure	No policy or weak measure	No policy or weak measure	Complete measure

Note: See Annex 2.B for more information.

Source: OECD based on WHO (2021^[37]), *WHO Technical Manual on Tobacco Tax Policy and Administration*, <https://www.who.int/publications/i/item/9789240019188>; WHO (2023^[35]), *WHO Report on the Global Tobacco Epidemic, 2023: Protect People from Tobacco Smoke*, <https://www.who.int/publications/i/item/9789240077164>.

Thailand's 2017 SSB excise tax reform has shown early signs of contributing to a reduction in sugar consumption. Obesity and overweight in adults and children is a major public health concern in Thailand, with 15% of the adult population being obese and 45% being overweight in 2022 (WHO, 2024^[36]). The SSB tax reform, which will be fully implemented by 2025, aims to encourage individuals to adopt a healthy lifestyle. Prior to 2017, beverages were only subject to an *ad valorem* tax; since 2017, a specific tax based on sugar content has been introduced in addition to the *ad valorem* tax. The structure and rate of the SSB excise tax are such that the tax burden increases with the concentration of sugar in the beverage. The *ad valorem* tax applies to all SSBs, which reduces potential substitution effects, but the rate varies by type of beverage. The specific excise tax increases with sugar content, but beverages that contain less than 6 grams of sugar per 100 ml are taxed at a 0% rate. The initial revenue and consumption impact of the SSB tax reform has been positive. SSB tax revenues increased from THB 17 billion in 2017 to THB 25 billion in 2020, while the consumption of taxed SSBs decreased by 2.5% within the first year of the implementation of the tax, and the consumption of non-taxed SSBs decreased by 2% (Phulkard et al., 2020^[38]). In addition, manufacturers have reformulated their SSBs, reducing the average sugar content by 26% for energy drinks and by 18% for fruit juices (Excise Department of Thailand).

Thailand is considering introducing a tax based on salt content. The aim of a sodium excise tax is to encourage consumers to buy healthier products with lower sodium content and to encourage producers to reduce the salt content of their food products. In addition to the public health objective, the tax is also an additional source of health tax revenue for tax authorities. The introduction of a content-based sodium excise tax is feasible if the Food and Drug Administration confirms sufficient capacity, as its implementation and regulation are very similar to the SSB excise tax. The Ministry of Health and the Food and Drug Administration would jointly assess the salt content of each product. The progressive tax rates can be related to the amount of sodium per serving (e.g. per 100 grams), similar to the amount of sugar in SSBs. Currently, Colombia⁴ levies a similar excise tax on salt.

Environmental tax revenue could gain importance in Thailand

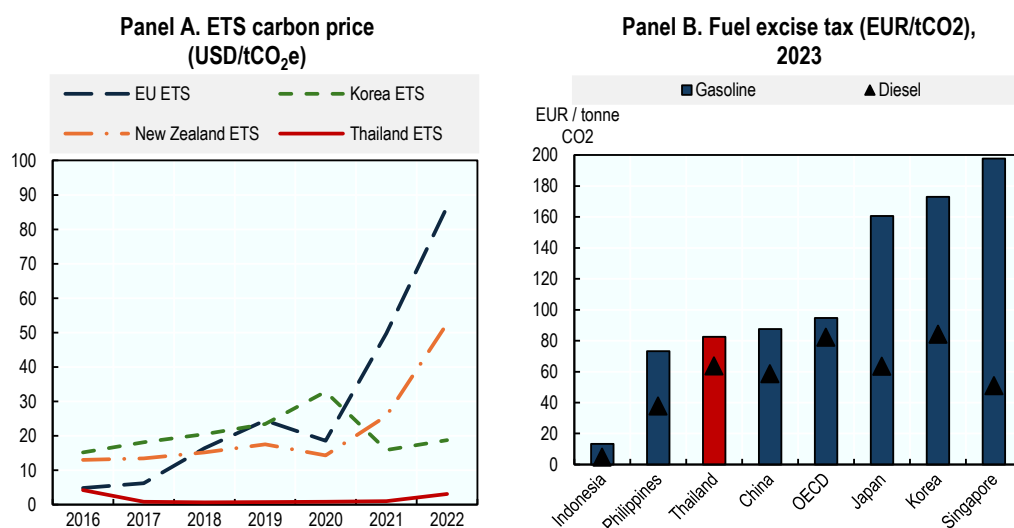
Thailand's ETS carbon prices are currently low (OECD, 2023^[41]). Carbon pricing refers to the overall price on greenhouse gas emissions to encompass not only explicit pricing from Emission Trading Systems (ETS) and carbon taxes⁵ but also fuel excise taxes (OECD, 2016^[39]). The net effective carbon rate in Asia ranges between EUR -25 in Malaysia and EUR +26 in Korea per tonne of CO₂ emissions in 2023 (OECD, 2024^[40]). This estimate is not available for Thailand, but low ETS carbon prices and moderate fuel excise tax rates combined with fuel subsidies suggest that this indicator is relatively low. In 2015, Thailand started a voluntary pilot ETS in four carbon-intensive industries. From 2018 to 2020, the ETS platform was rolled

out to nine industries (OECD, 2023^[41]). However, the voluntary nature of the ETS with no stringent emission cap has implied that the carbon prices generated by the current system are low and, thus, not effective in reducing greenhouse gas emissions (Figure 2.14– Panel A).

Enhancing carbon pricing could significantly boost revenue in Thailand. By raising revenue, carbon pricing can strengthen countries' efforts to improve domestic resource mobilisation. Revenues from carbon pricing could be used to provide targeted support to improve energy access and affordability, enhance social safety nets, and support other economic and social priorities (Marten and van Dender, 2019^[41]).

Plans for mandatory carbon pricing under the ETS are currently underway. A draft law outlining the framework of a mandatory system was submitted to the cabinet for approval in 2023. When the new law comes into force, the private sector will be required to report greenhouse gas emissions to the government, with administrative penalties for failures to report (OECD, 2023^[41]).

Figure 2.14. Carbon prices in Thailand and selected countries



Note: Several OECD countries, including Japan, have a carbon tax on gasoline and diesel, which is added to the fuel excise tax. Singapore has a carbon tax on diesel (EUR 0.38 per tonne of CO₂), and Japan has a carbon tax on gasoline (EUR 2.19 per tonne of CO₂) and diesel (EUR 1.37 per tonne of CO₂).

Source: Adapted from OECD (2023^[41]), *OECD Economic Surveys: Thailand 2023*, <https://doi.org/10.1787/4815cb4b-en>, based on data from OECD Green Growth Indicators; US Department of Energy, Maps and Data - Fuels Taxes by Country; national sources; World Bank Carbon Pricing Dashboard; Thailand Greenhouse Gas Management Organisation, Thailand Excise Department, Carbon Market information.

During the energy crisis, Thailand introduced substantial tax cuts in fuel excise taxes, which have been removed recently, but diesel and liquefied petroleum gas (LPG) prices continue to be subsidised. In response to increasing living costs and oil prices, the Ministry of Finance issued several oil excise tax rate cuts in 2022 (Excise Department, 2023^[32]). For instance, the diesel excise tax for fuel was cut from THB 6 to THB 1.3 per litre in 2022 (World Bank, 2023^[3]). These major fuel excise tax rate cuts were financed via the State Oil Fund (World Bank, 2023^[3]). Although the excise tax rate cuts on diesel have been removed, the State Oil Fund continues to subsidise the price of diesel and LPG, which results in domestic prices for households and businesses below the price on the international oil market. Fossil fuel subsidies have been estimated to cost the government 0.6% of GDP in fiscal year 2024 (IMF, 2025^[42]). In 2023, Thailand's excise tax on fossil fuels expressed per tonne of CO₂ increased but remained relatively low when compared to more advanced countries in the region, particularly for gasoline (Figure 2.14–Panel B).

Thailand is encouraged to gradually increase the recently introduced carbon tax

In 2025, Thailand introduced a carbon tax as part of the excise tax. In January 2025, the Thai government approved a carbon tax of THB 200 (approximately USD 5.88) per tonne of CO₂, applicable to seven types of fuels (Reccessary, 2025^[43]). This carbon tax will be integrated into the excise tax levied on oil products (including gasoline, gasohol, kerosene, jet fuel, diesel biodiesel, LPG and fuel oil) and is not expected to affect retail prices. While this measure does not currently increase effective carbon prices, it could facilitate gradual carbon price increases in the future.

Carbon taxes can be particularly effective revenue-raising instruments in countries with high levels of informality. Carbon taxes are generally harder to avoid than direct taxes on personal or corporate income. They can, therefore, be effective revenue-raising taxes in economies facing the challenge of high levels of informality. Furthermore, revenue from carbon pricing can be used to finance both climate change adaptation and support improvements in social safety nets. The latter is particularly relevant in countries where many citizens do not benefit from adequate social protection (OECD, 2021^[44]). Therefore, the introduction of a carbon tax in Thailand could potentially become an important instrument not only to reduce CO₂ emissions over time but also to raise revenue.

Further earmarking of tax revenue has legal limits in Thailand

Thailand earmarks tax revenue for local authorities, health and old age funds, and public broadcasting services (Table 2.3). Local governments are generally financed through locally collected taxes and central government-earmarked revenue. Two major social protection funds are financed via earmarked revenue: the Thai Health Promotion Fund and the Elderly Fund. Surcharges are levied on top of existing excise taxes on alcohol and tobacco, and their revenue is fully earmarked for these two funds.

Table 2.3. Thailand's earmarked tax revenue

Recipient	Law	Earmarked revenue	Description
Local authorities	Decentralization Act (1999)	10% of VAT revenue	To support the decentralisation agenda and enhance local governments.
	Specific Business Tax (SBT) Act B.E. 2535 (1992)	10% municipality surcharge on the Special Business Tax base	The SBT applies to financial institutions that are not subject to VAT and ranges from 2.5-3%. A municipality surcharge of 10% is earmarked for local authorities.
	Decentralization Act (1999)	10% of revenue from excise taxes	To support local infrastructure and development.
Thai Health Promotion Fund	Health Promotion Foundation Act B.E. 2544 (2001)	2% surcharge tax on excise tax base on alcohol and tobacco (about USD 120 million per year)	The Thai Health Promotion Fund was founded in 2001 and is fully funded by the surcharge tax revenue. The fund is used to fund health promotion activities and sports development, among others.
Elderly Fund	Elderly Act, B.E. 2546 (2003), amendment in 2016	2% surcharge tax on excise tax base on alcohol and tobacco	The Elderly Fund has provided loans to the elderly in Thailand since 2016. The fund is financed 70% by general tax revenues and 30% by surcharge tax revenues.
Thai Public Broadcasting Service (Thai PBS)	Thai Public Broadcasting Service Act B.E. 2551 (2008)	1.5% surcharge tax on excise tax base on alcohol and tobacco	The Thai PBS is funded by an annual government subsidy and the earmarked surtax revenue.

Source: IBFD (2024^[7]), *Country Tax Guides*; Thai Revenue Code; Thai Excise Department (2023^[32]), *Annual Report of the Excise Department for the Year 2022*.

The Thai State Fiscal and Financial Discipline Act of 2018 introduced limits to the amounts of public revenue that can be earmarked to safeguard the flexibility and efficiency of the public budget. In practice, this means that Thailand cannot introduce a “social” VAT (i.e. earmarking part of VAT revenues for social protection), introduce new surcharges or increase their rate, or allow other organisations or funds to benefit from earmarked revenues. There are, therefore, legal limits to further revenue earmarking. More generally, revenue earmarking has significant drawbacks as it leads to budget rigidity and fragmentation and could limit the reallocation of public funds. Nevertheless, it may be justified in certain contexts to ensure the political feasibility of reforms such as removing fossil fuel subsidies.

Thailand is advised to incorporate the impact of ageing into its medium-term revenue analysis

Thailand has a well-developed budget planning framework, budget strategy and budget management process (Blazey et al., 2021^[45]). The National Strategy (20-year horizon, 2018-35) is translated into National Economic and Social Development Plans (5-year period) to guide the allocation of resources in the annual budget planning process. The Medium-Term Fiscal Framework (MTFF) and the Medium-Term Expenditure Framework (MTEF) are prepared on a three-year basis. The MTFF follows a top-down approach, while the MTEF follows a bottom-up approach. These are then reconciled during the annual budget preparation process in accordance with the applicable fiscal rules.

Population ageing has implications for Thailand’s expenditure and revenues. The median age of Thailand’s population is expected to rise from 40 to 49 years old by 2050 (UN, 2024^[46]), putting pressure on public finances, as expenditures are expected to rise and revenues are expected to fall. The issue of population ageing is pressing as Thailand’s population is ageing at twice the rate of OECD countries (OECD/ERIA, 2025^[47]). The challenge of rapid population ageing for Thailand’s public finances needs to be an integral part of long-term budget planning and incorporated into the MTFF, MTEF and the medium-term revenue strategy.

Spending on pensions, health and long-term care in Thailand is projected to increase significantly. The fiscal cost of public pension schemes (old age pension allowance, civil servant pension and Social Security Fund) is estimated to increase from 1.4% of GDP in 2017 to 2.7% of GDP in 2035 and to 5.6% of GDP in 2060. The public expenditure on health is estimated to increase from 3% of GDP in 2017 to 4% in 2035 and 5% in 2060 (IMF, 2019^[28]).

In the absence of reforms, population ageing in Thailand is expected to reduce tax revenues, as a declining labour force leads to lower revenues from labour income taxes and SSC. In addition, there could be indirect effects on tax revenues through changes in growth and productivity levels. The impact of ageing on income growth will depend on the relative magnitudes of: declining employment-to-population ratios; rising capital per worker; and productivity growth, which in turn depends on the pace of innovation, technology adoption and human capital investments induced by ageing (Rouzet et al., 2019^[48]). Thailand’s fast ageing population may make it more difficult to catch up in terms of technology and innovation (OECD/ERIA, 2025^[47]). Thus, lower future growth and productivity levels could further reduce tax revenues in Thailand in the absence of reforms.

In this context, Thailand will need to increase tax revenues to finance additional spending needs associated with an ageing population. Many advanced economies have responded to demographic shifts by raising the retirement age, often indexed by linking it to life expectancy, or are in the process of doing so. An increase in the retirement age in Thailand could encourage labour participation and enhance revenue collection from labour taxation. In addition, efforts to increase formalisation could play an important role in broadening the PIT and SSC base. Investment in human capital is also essential to increase formal sector wages, which in turn contribute to higher tax revenues. Shifting the tax burden from labour income to other tax bases – such as property, inheritance and consumption taxes – could be among the measures

to address the fiscal challenges of population ageing. Finally, increasing the taxation of capital income at the individual level could provide an additional source of revenue.

Box 2.3. Key recommendations on general tax revenues in Thailand

- Analyse the impact of ageing on Thailand's tax revenue and tax structure.

Increase VAT revenues

- Increase the standard VAT rate and broaden the base by eliminating VAT exemptions while providing compensation to the most vulnerable.
- Consider lowering the VAT registration threshold.
- Strengthen the VAT on e-commerce.

Improve the design of CIT incentives

- Avoid profit-based tax incentives.
- Publish an annual tax expenditure report that includes estimates of tax revenue foregone on an item-by-item basis.
- Include the distributional impact of tax expenditures in the tax expenditure report.
- Carry out a cost-benefit analysis of the costliest tax incentives and evaluate whether they result in additional investment or rather provide a windfall gain to investment that would have taken place without the tax incentive.

Increase revenues while enhancing the overall progressivity of the tax system

- Consider increasing the withholding tax rate on dividends.
- Continue implementing the Land and Building Tax Act; regularly update property values to match them with market values; regularly update the cadastral system and digitalise the land mapping survey.

Improve excise tax design

- Alcohol excise taxes: Increase tax rates.
- Tobacco excise tax: Levy the *ad valorem* tax on the tax-inclusive final (observed) retail price; increase the tax share of roll-your-own tobacco; index the specific tobacco excise tax to inflation; and implement an excise tax floor.
- SSB excise tax: Complete the implementation of the reform started in 2017.
- Implement a sodium tax if the Food and Drug Administration confirms that it has the capacity to implement and enforce the tax.

Strengthen carbon pricing

- Phase out diesel subsidies.
- Make the Emissions Trading System mandatory.
- Gradually increase the recently introduced carbon tax.

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Annex 2.A. Tax policy measures discussed in the literature

Tax reform recommendations for Thailand in the literature have focused on VAT, PIT, property tax and environmental tax reforms. Table 2.A.1 summarises the reform options and cost estimates presented in recent reports by various international organisations on domestic revenue mobilisation in Thailand. The reform proposals focus on tax types where Thailand collects less revenue (as a percentage of GDP) than its peers (Annex Table 2.A.1).

Annex Table 2.A.1. Overview of cost estimates for potential tax reforms in Thailand

Reform option	Description	Estimated impact on tax revenue (% of GDP)	Source
PIT base expansion	Expand the coverage of PIT by increasing the number of PIT tax filers to 32.5% of the labour force (UMIC average), e.g. by lowering the entry rate and threshold for PIT and incentivising compliance.	0.3%	(World Bank, 2023 ^[3])
Income tax (PIT and CIT) expenditure removal	Streamline overall PIT allowances, deductions and special allowances (while maintaining the exemption for incomes below THB 150 000, among others). Some of the special PIT allowances benefit, in particular, high-income earners, e.g. tax subsidies for long-term savings, insurance premiums and interest payments. Remove regressive CIT exemptions that benefit only large corporations.	0.5% 0.6% 0.9% THB 160 billion	(World Bank, 2023 ^[3]) (OECD, 2023 ^[4]) (ILO et al., 2022 ^[29]) (UNICEF and TDRI, 2022 ^[49])
VAT rate increase	Increase the VAT rate from 7% to 10%.	1.8% 1.6% 1.5% 0.55-1.1% THB 150-200 billion THB 245 billion	(IMF, 2024 ^[5]) (World Bank, 2023 ^[3]) (OECD, 2023 ^[4]) (ILO et al., 2022 ^[29]) (UNICEF and TDRI, 2022 ^[49]) (World Bank, 2022 ^[50])
VAT exemption reform	Remove VAT exemptions on some products (sales of agricultural products, transportation, healthcare, educational and cultural services) and review VAT exemption of SMEs below the VAT registration threshold (THB 1.8 million).	0.6% 1.5%	(World Bank, 2023 ^[3]) (OECD, 2018 ^[51])
VAT on e-commerce	Extend the VAT to capture e-commerce and digital services more effectively; in particular, tax online sales of digital services by foreign suppliers.	0.2%	(World Bank, 2023 ^[3])
Property tax reform	Improve property tax collection by ensuring regular updates of the appraisal value (linked to market values), simplifying valuation approaches, and digitalising the land mapping survey. Remove exemptions and reductions in the land and building tax system and fully implement it.	0.3% 0.2% 0.1% THB 30 billion	(World Bank, 2023 ^[3]) (ILO et al., 2022 ^[29]) (OECD, 2023 ^[4]) (UNICEF and TDRI, 2022 ^[49])
Tax compliance	Enhance tax administration and compliance using digital technologies (e.g. e-filing, e-payment, pre-filing) to reduce enforcement costs and lower the reporting burden on taxpayers.	0.5%	(OECD, 2023 ^[4])
Phase out fossil fuel subsidies	In particular, diesel and LPG.	0.6%	(IMF, 2025 ^[42])
Carbon pricing introduction	Introduce a carbon tax, build on the legislation constructed for the pilot phase, and expand it to state-owned enterprises. A new law is already underway.	1.0% 0.8%	(OECD, 2023 ^[4]) (World Bank, 2023 ^[3])

Note: Data in this table have been collected in an extensive literature review and cover tax reform recommendations and cost estimates for Thailand. A focus has been on publications published in 2022-24.

Annex 2.B. Assessment of tobacco tax policy performance in Thailand

Selected WHO tobacco tax policy best practices are:

- **BP1:** Increase tobacco taxes significantly to reduce the affordability of tobacco products. To reduce affordability, tax increases need to result in nominal retail price increases that exceed the increase in nominal incomes (**affordability**).
- **BP2:** Rely more on tobacco excise tax increases over other general indirect (and direct) taxes as they are most effective in raising both absolute and relative prices of tobacco products (**type of taxes**).
- **BP3:** Rely more on specific tobacco taxes over *ad valorem* taxes, and in mixed tax structures, give more weight to the specific tax component than to the *ad valorem* tax component (**tobacco excise tax structure**).
- **BP4:** Tax all traditional tobacco products (i.e. cigarettes, cigars, cigarillos, roll-your-own [RYO] tobacco) with a tobacco excise tax (**taxable products**).
- **BP5:** Tax new and emerging tobacco and nicotine products (i.e. electronic nicotine delivery systems [ENDS], electronic non-nicotine delivery systems [ENNDS] and heated tobacco products [HTP]) with an excise tax when their sales are not banned (**taxable products**).
- **BP6:** For *ad valorem* tax structures, set the retail price as the tax base rather than, for instance, the cost, insurance and freight (CIF) value or the producer price (**tobacco excise tax base**).
- **BP7:** For specific excise taxes, clearly define the tax base (for cigarettes, cigars and bidis, it is the number of sticks; for other tobacco products, such as smokeless tobacco or RYO tobacco, it is the weight of tobacco) (**tobacco excise tax base**).
- **BP8:** Tax all tobacco and nicotine products similarly (e.g. similar tax structure, similar tax rates) (**tobacco excise tax rates**).
- **BP9:** Rely more on uniform excise tax rates over tiered rates (**tobacco excise tax rates**).
- **BP10:** Adjust specific tobacco taxes for inflation and real income growth on a regular basis (prices are not decreased at times of deflation) (**indexation**).
- **BP11:** Complement the *ad valorem* excise tax with an excise tax floor (e.g. a minimum excise tax, a minimum retail price) (**excise tax floors**).
- **BP12:** Implement non-tax policies affecting price levels of tobacco products (e.g. sale restriction for single sticks of cigarettes, bans of promotional discounts for tobacco products, minimum number of cigarettes per pack) to support the effectiveness of tobacco tax policies (**sale regulations that affect tobacco tax policy design**).

Annex Table 2.B.1. Criteria used to assess countries' compliance with WHO tobacco tax policy design best practices

		No policy or weak measure	Minimal measure	Moderate measure	Complete measure
Affordability	BP1	Cigarettes are not less affordable since 2012, and the tax share has not increased.	Cigarettes are not less affordable since 2012 despite increased tax share.	Cigarettes are less affordable since 2012, but the tax share has not increased.	Cigarettes are less affordable since 2012, and the tax share has increased.
Type of taxes	BP2	The excise tax share in the tobacco tax mix is equal to 0%.	The excise tax share in the tobacco tax mix is below 50%.	The excise tax share in the tobacco tax mix is between 50% and 66%.	The excise tax share in the tobacco tax mix is above 66%.
Excise tax structure	BP3	The excise tax structure is <i>ad valorem</i> only.	The excise tax structure is mixed, with a lower reliance on the specific component.	The excise tax structure is mixed, with a greater reliance on the specific component.	The excise tax structure is specific only.
Taxable products	BP4	None of the traditional tobacco products are subject to excise tax.	Up to two of four traditional tobacco products are subject to excise tax.	Three out of four traditional tobacco products are subject to excise tax.	All traditional tobacco products are subject to a tobacco excise tax.
	BP5	Sales of new tobacco and nicotine products are authorised, and the products are not subject to an excise tax.	The sale of new tobacco and nicotine products is regulated, but the products are not taxed with an excise tax.	At least one type of new tobacco and nicotine products is taxed. If more than one new tobacco and nicotine product is taxed, the rate at which they are taxed is lower than that of conventional cigarettes. If they are not taxed, the sales of at least one type of new tobacco and nicotine products are banned.	At least two types of new tobacco and nicotine products are taxed at a rate that is similar to the one applied to conventional cigarettes. If they are not taxed, the sales of new tobacco and nicotine products are banned.
Excise tax base	BP6	The <i>ad valorem</i> excise tax is levied on the tax-exclusive ex-factory price/CIF value.	The <i>ad valorem</i> excise tax is levied on the tax-exclusive retail price suggested by the manufacturer/importer.	The <i>ad valorem</i> excise tax is levied on the tax-inclusive retail price suggested by the manufacturer/importer.	The <i>ad valorem</i> excise tax is levied on the tax-inclusive final (observed) retail price.
	BP7	The specific excise tax is levied on weight or one of the characteristics of the tobacco products (e.g. quality or length).	The specific excise tax is levied on a unit: a pack of tobacco products (without specifying the number of sticks per pack), or 1 000 sticks.	The specific excise tax is levied on a unit: a pack of tobacco products with a number of sticks per pack set out in the law.	The specific excise tax is levied on a unit: a single stick of tobacco products whose characteristics are defined in the law.
Excise tax rate	BP8	Excise tax structures differ across tobacco and nicotine products.	Tobacco and nicotine products are subject to the same excise tax structure but different statutory tax rates.	Tobacco and nicotine products are subject to the same excise tax structure and statutory tax rates. However, the tax rates per 20-unit pack differ significantly when levied on weight.	Tobacco and nicotine products are subject to the same excise tax structure and tax rates per 20-unit pack.
	BP9	Tiered taxation for most tobacco products.	Tiered taxation for a few tobacco products.	Tiered taxation for one tobacco product.	Uniform tax rates for all tobacco products.
Indexation	BP10	No indexation.	Regular adjustments but not necessarily annual indexation for inflation.	Indexation for inflation only, preferably automatic.	Annual indexation for inflation and real income growth.
Tax floor	BP11	No excise tax floor.	Excise tax floor for some tobacco products, but not expressed as a fixed amount (i.e. specific).	Excise tax floor for some tobacco products and expressed as a fixed amount (i.e. specific).	Excise tax floor for all tobacco products and expressed as a fixed amount (i.e. specific).

		No policy or weak measure	Minimal measure	Moderate measure	Complete measure
Sale regulation	BP12	There are no sale regulations.	One out of three key sale regulations is in place.	Two out of three key sale regulations are in place.	All the three key sale regulations are in place.

Note: Thailand's assessment is marked in bold for each best practice (BP).

Source: OECD based on WHO (2021^[37]), *WHO Technical Manual on Tobacco Tax Policy and Administration*, <https://www.who.int/publications/i/item/9789240019188>; WHO (2023^[35]), *WHO Report on the Global Tobacco Epidemic, 2023: Protect People from Tobacco Smoke*, <https://www.who.int/publications/i/item/9789240077164>.

Notes

- ¹ The definition of SMEs is based on annual turnover (up to THB 30 million) and paid-up capital (up to THB 5 million).
- ² The SBIE is computed as a fixed percentage of the MNE's payroll and tangible assets located in the jurisdiction. Limiting the application of the minimum tax to the excess profits means that firms with substantial economic activity in a jurisdiction may continue to benefit from reduced tax rates in that jurisdiction without being subject to the full top-up tax.
- ³ The effective tax rate on dividend income for corporations is calculated as $\tau_{CIT} + (1 - \tau_{CIT}) \cdot \tau_{WHT}$, where the CIT rate is 20% and the dividend withholding tax rate is 10% in Thailand.
- ⁴ Colombia has had an excise tax on salt since 2022 (introduced together with a fat and sugar excise tax), which applies to ultra-processed and packaged foods containing added salt, sugar and saturated fats (e.g. snacks, canned goods or sauces). The tax rate depends on the level of sodium in the product and increases with higher levels of sodium. It starts at 10% for products with sodium exceeding 1 mg per kcal and/or 300 mg per 100 grams. The tax rate is planned to increase over the coming years (15% in 2024, 20% in 2025).
- ⁵ An ETS can set a (non-fixed) cap on total greenhouse gas emissions, and emission permits can be traded. A carbon tax sets a fixed price per tonne of CO₂ emitted.

3

Improving the design of social security contributions and personal income tax in Thailand

This chapter examines the combined impact of social security contributions (SSC) and personal income taxes (PIT) on the tax burden on labour income and explores potential reform options in Thailand. It discusses the design of SSC for private sector employees covered under Article 33 of the Social Security Fund. In addition, the chapter evaluates the progressive PIT system and measures the overall tax burden on labour income across wage levels for private sector employees. It also simulates the impact of SSC and PIT reforms on the tax burden on labour income and estimates the revenue impact of these reforms. Finally, the chapter proposes reform options for the public pension system.

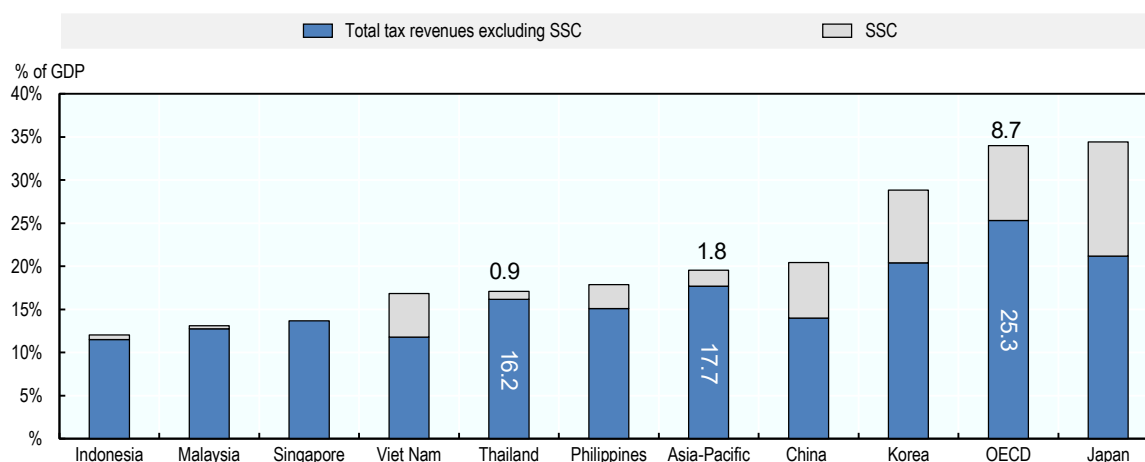
Thailand could strengthen its contributory social insurance system

Social security contributions raise little revenue

In 2023, social security contributions (SSC) accounted for only 0.9% of Thailand's gross domestic product (GDP). This figure is low compared to the OECD average of 8.7% of GDP and the Asia-Pacific region, where SSC generate 1.8% of GDP in revenue on average (Figure 3.1). For example, the Philippines and Viet Nam collect significantly more revenue from SSC than Thailand (2.8% and 5.0% of GDP, respectively).

Figure 3.1. Tax-to-GDP ratios and social security contributions in Thailand and selected countries, 2023

Total tax revenues and SSC, as a % of GDP, 2023 or latest year



Note: The tax-to-GDP ratio for Japan and the OECD average refer to data from 2022.

Source: OECD (2024^[1]), *Global Revenue Statistics Database*, <https://www.oecd.org/en/data/datasets/global-revenue-statistics-database.html>.

Employer and employee contribution rates and the contribution income ceiling are low

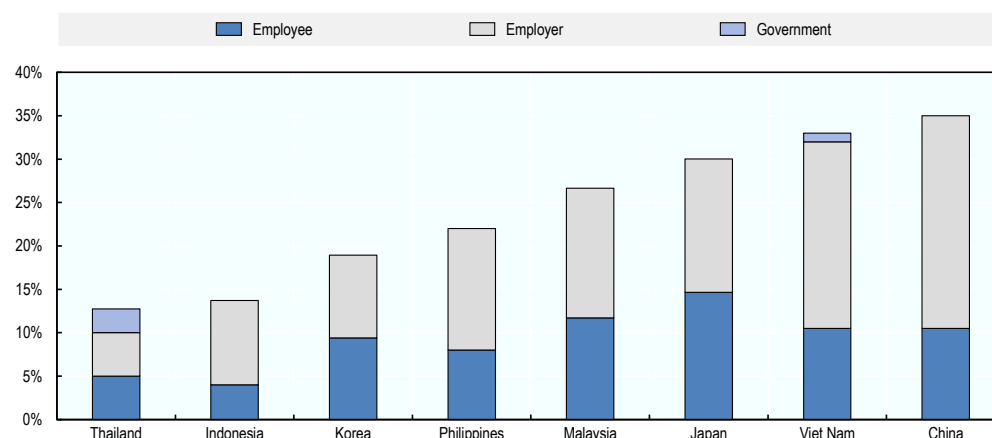
Thailand's employer and employee contribution rates for private sector employees are lower than those of its regional peers and cover healthcare, old age, child and unemployment protection. At 12.75%, Thailand has the lowest employer and employee contribution rate for private sector employees compared to 14% in Indonesia and 35% in the People's Republic of China (hereafter, "China") (Figure 3.2). The employee and employer each contribute 5% while the government subsidises the Social Security Fund (SSF) by adding a 2.75% matching contribution. The total contribution rate is allocated as follows: 4.5% for healthcare; 7% for old age and child support; and 1.25% for unemployment insurance (Table 3.1). In addition, employers are required to contribute to the Workers' Compensation Fund between 0.2-1% of the gross wage, depending on the risk level of the activity (capped at THB 20 000 [Thai baht] monthly wage).

Government subsidies to SSC are expensive. Government matching contributions, such as the 2.75% in Thailand, are uncommon among East Asian countries, with Viet Nam being the exception by explicitly subsidising SSC through a 1% contribution to employees' unemployment insurance. In 2022, this subsidy cost Thailand about THB 44-46 billion, or 0.25-0.27% of GDP.¹ The regressive nature of this government subsidy to SSC implies that higher-income workers receive greater subsidies for their SSC benefits. About half of the total government subsidy costs stem from subsidising SSC for private sector workers earning more than THB 14 000 a month. To mitigate this regressivity and reduce the reliance on general revenues

for financing contributory schemes, matching contributions could be eliminated for employees in the top income quintile and replaced with higher employer contributions (L'Horty, Martin and Mayer, 2019^[2]).

Figure 3.2. Social security contribution rates for employees, employers and the government in Thailand and selected countries, 2024

Social security contributions as a % of gross income, 2024



Note: In general, SSC rates cover contributions to pensions, health insurance and unemployment of private sector workers. Workers' compensation funds for injuries at work, paid by employers, are generally excluded. For China, the 12% housing contributions paid by the employee and the employer are not displayed. In Viet Nam, the government makes a 1% contribution to unemployment insurance.

Source: IBFD (2024^[3]), *Country Tax Guides*.

Table 3.1. Social security contributions in Thailand under Article 33

	Employee	Employer	Government	Total
Health	1.5%	1.5%	1.5%	4.5%
Old-age/child support	3%	3%	1%	7%
Unemployment	0.5%	0.5%	0.25%	1.25%
Total	5%	5%	2.75%	12.75%

Note: Contributions are expressed as a percentage of an employee's gross wage.

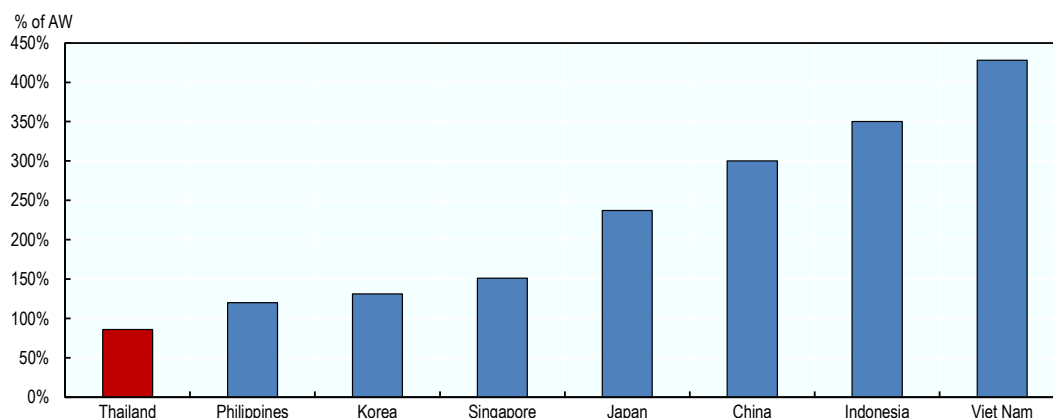
Source: Social Security Office of Thailand, in direct communication with the OECD.

The very low SSC ceiling results in a narrow tax base. The contribution ceiling for employee and employer SSC is set at a monthly wage of THB 15 000, which corresponds to 87% of the average wage (AW) in the private sector. This is much lower than the SSC ceiling of other Asian countries (Figure 3.3). Employees and employer contributions are capped at THB 1 500 per month for individuals with earnings above the SSC ceiling. Capped contributions lead to declining effective contribution rates for higher-income earners, thereby narrowing the tax base.

A contribution floor establishes the minimum level of contributions that employees and employers must make to social security. The contribution floor is set at a monthly wage of THB 1 650, which represents 16% of the minimum wage. Consequently, the minimum combined contributions from both employee and employer amount to THB 165 per month, regardless of whether the actual wage is below THB 1 650 per month. As a result, the SSC floor contributes to regressivity for wages below 16% of the minimum wage. However, this situation is likely relevant only to a small number of employees with wages below the floor level (see Figure 3.5 in the following section).

Figure 3.3. Ceiling for pensionable earnings in Thailand and selected countries, 2020

Ceiling for pensionable earnings from public pension schemes, as a % of the average wage, 2020 or latest year



Note: For Thailand, the displayed ceiling is at 87% of the AW for private sector employees in 2024 (based on wage data from May 2024), whereas in 2020, Thailand's SSC ceiling was at 103% of AW. For the other countries, the ceiling is expressed as a share of the average earnings from 2020.

Source: Adapted from OECD (2022^[4]), *Pensions at a Glance Asia/Pacific*, <https://doi.org/10.1787/2c555ff8-en>, Table 1.3.

Pensioners are exempt from paying SSC. During their working lives, private sector employees contribute to the SSF and receive health insurance coverage under the SSF. Upon retirement, pensioners cease to be insured under the SSF and transition to coverage through the universal health insurance system, which is provided at no cost.

PIT needs a reform

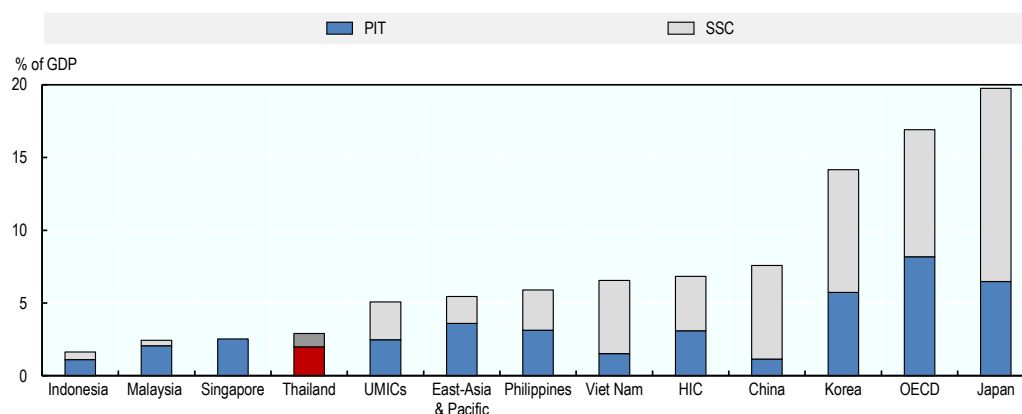
Revenue from PIT is low

Revenue from PIT in Thailand is low, amounting to 2.0% of GDP, compared to 8.2% of GDP in OECD countries, on average (Figure 3.4). The low PIT revenue is due to generous general PIT allowances and the high level of informality in Thailand, with 52% of the labour force being informal (according to the Informal Employment Survey; see Chapter 4).

Personal income tax is levied at a progressive tax rate schedule on the joint labour and capital income of individual taxpayers (Table 3.2). The second income bracket's threshold is 71.5% of the AW or 120% of the minimum wage. Personal income tax is levied on both labour and capital income. However, individual taxpayers can either include dividend income in their PIT return or apply the 10% dividend withholding tax rate as a final tax rate. Filing PIT returns is mandatory for taxpayers with annual earned income exceeding THB 120 000 or other annual income exceeding THB 60 000. In 2022, 84% of the PIT returns in Thailand were filed electronically (CIAT et al., 2024^[5]).

Figure 3.4. Revenue from PIT and SSC in Thailand and selected countries, 2023

Revenue from PIT and SSC, as a % of GDP, 2023 or latest year



Note: Data for Japan and OECD average are based on data from 2022; high-income countries (HIC) and upper-middle-income countries (UMIC) averages are based on data from 2021.

Source: OECD (2024^[1]), *Global Revenue Statistics Database*, <https://www.oecd.org/en/data/datasets/global-revenue-statistics-database.html>.

Table 3.2. Personal income tax schedule in Thailand, 2024

Taxable income (THB, annual)	Taxable income (% of annual AW)	Taxable income (% of annual minimum wage)	Tax on lower amount (THB, annual)	Statutory marginal rate (%)
Up to 150 000	Up to 71.5%	Up to 119.4%	-	0
150 001-300 000	71.5-143%	119.4-238.7%	0	5
300 001-500 000	143-238.4%	238.7-397.9%	7 500	10
500 001-750 000	238.4-357.6%	397.9-596.8%	27 500	15
750 001-1 000 000	357.6-476.8%	596.8-795.7%	65 000	20
1 000 001-2 000 000	476.8-953.7%	795.7-1 591.5%	115 000	25
2 000 001-5 000 000	953.7-2384.2%	1 591.5-3 978.7%	365 000	30
Above 5 000 000	Above 2 384.2%	Above 3 978.7%	1 265 000	35

Note: The average wage of private sector workers in Thailand is reported at THB 17 476 monthly for May 2024. The minimum wage is THB 353 per day in Bangkok in 2024.

Source: IBFD (2024^[3]), *Country Tax Guides*; Social Security Office of Thailand, in direct communication with the OECD.

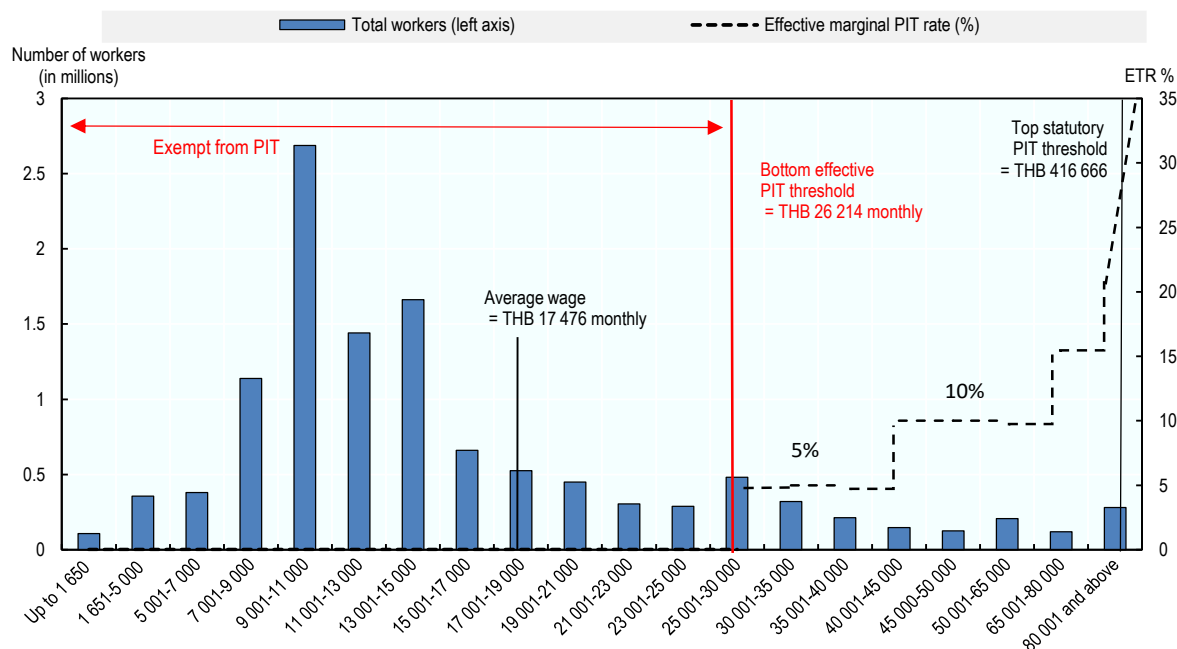
Tax allowances and deductions narrow the PIT base

Due to generous general tax allowances, the effective bottom PIT rate starts being paid at a relatively high gross income level. The general tax allowance of 50% (or a maximum of THB 100 000) and the single taxpayer allowance (THB 60 000) apply to all wages and salaries and effectively increase the PIT threshold to a gross monthly income of THB 26 214, which corresponds to 1.5 times the average wage or 2.5 times the minimum wage. These very generous tax allowances play a crucial role in narrowing the PIT base (Figure 3.5). As a result:

- Workers earning up to a monthly wage of THB 26 214 are completely exempt from PIT, representing about 85% of formal private sector workers.
- The second PIT bracket with a marginal tax rate of 5% applies to monthly gross incomes exceeding THB 26 214.

Figure 3.5. Personal income taxpayers in Thailand, 2024

Distribution of Thai formal employees by wage segments and effective marginal PIT rates, 2024



Note: Bars present the total number of workers (in millions) per wage segment (left axis). The dotted line graph presents the effective marginal PIT rates by wage segments (right axis). Vertical lines indicate the bottom and top PIT thresholds as well as the average wage for private sector employees. The bottom effective PIT threshold accounts for the single taxpayer allowance and the general PIT deductions. On the horizontal axis, monthly wage segments are displayed in Thai baht.

Source: Authors' own elaboration based on Social Security Office of Thailand and Thai Revenue Code.

Generous tax deductions disproportionately benefit high-income earners and narrow the PIT base (Table 3.3). The cap for all retirement and long-term savings, including contributions to provident funds, the Retirement Mutual Fund, or the Government Pension Fund, cannot exceed THB 500 000 (2.5 times the AW). Additional deductions for premiums, interests and donations exist (Table 3.3). Many OECD countries have turned their tax allowances into tax credits, as allowances tend to benefit high-income earners more than low-income earners (OECD, 2006^[6]). The primary advantage of tax credits, which are deductible from tax liability, is that their value is independent of income, whereas the value of tax allowances increases with the taxpayer's marginal tax rate. Thailand could consider eliminating unjustifiable tax deductions and converting the remaining tax deductions into tax credits or lowering the cap for those that remain in place.

The high income thresholds for the top PIT rates result in a low number of taxpayers being subject to them. With eight income brackets, Thailand's PIT structure has more brackets than that of most peer countries (Figure 3.6 – Panel A). The top PIT rate of 35% applies to annual income above THB 5 million, equivalent to 24 times the AW or 40 times the minimum wage, affecting less than 1% of private sector workers in 2024. Similarly, the top three income brackets, with statutory marginal PIT rates above 25%, apply to only 2.4% of private sector workers. The statutory threshold for the top PIT rate is higher than in most OECD countries, with only Colombia and Mexico having higher thresholds. The effective threshold is even higher when accounting for tax allowances (Figure 3.6 – Panel B). Thailand could consider redesigning its PIT schedule by reducing the number of PIT brackets, restructuring the income thresholds for certain brackets, and lowering the thresholds for the top PIT rates. Such reforms would increase the tax burden on high-income earners and enhance the progressivity of the PIT system. The exact design of the PIT schedule should be informed by an analysis of tax return microdata.

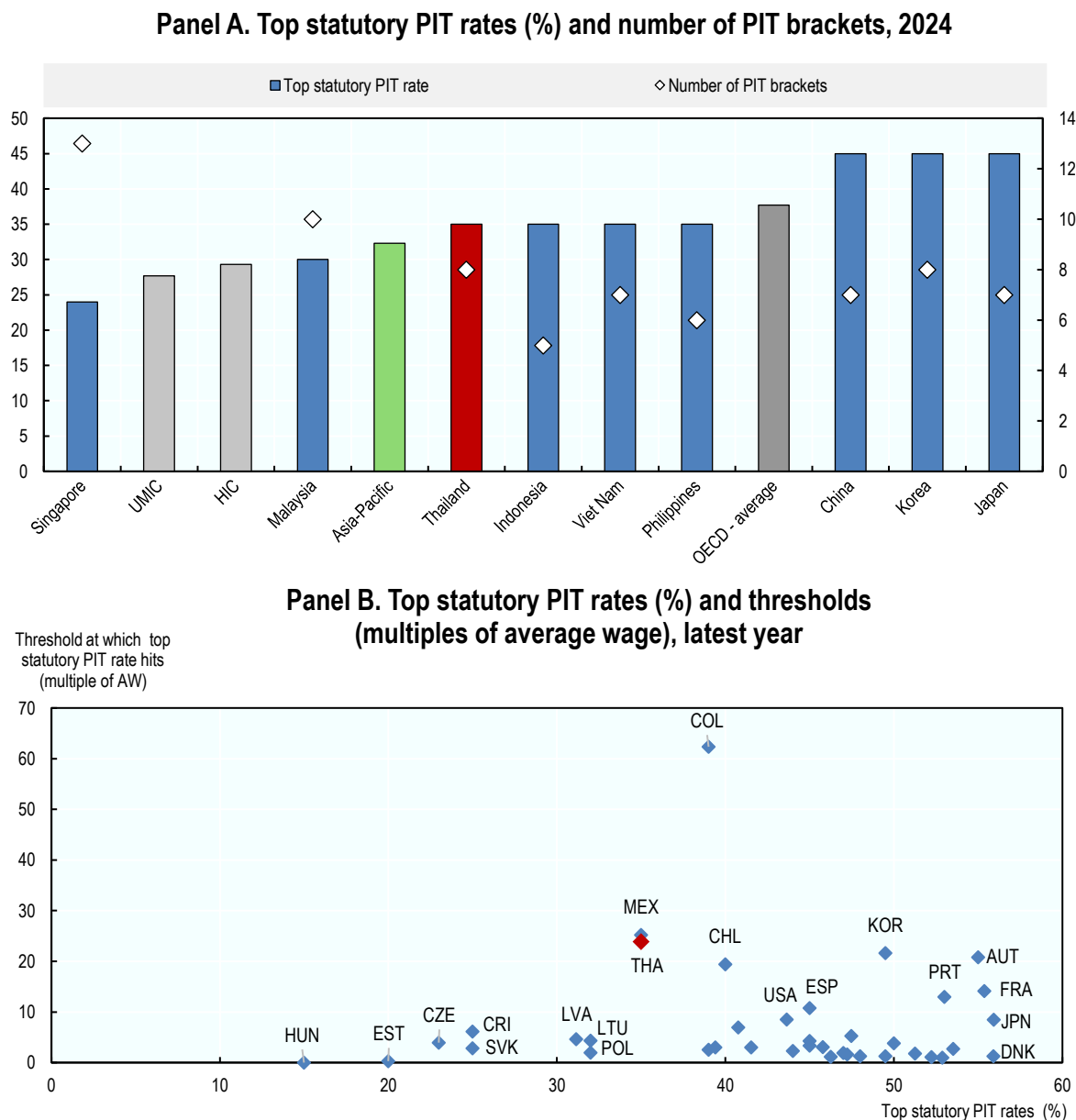
Table 3.3. Personal income tax allowances and deductions in Thailand, 2024

	Amount (THB)	Ceiling (THB or % of assessable income)
Personal allowance		
Single taxpayer allowance	60 000	
General taxpayer allowance		50% (up to 100 000)
Individuals above 65 years old who continue working	190 000	
For dependents		
For spouse (if tax return filed together)	60 000	
For up to three children (aged under 25 and in full-time education in Thailand or abroad)	30 000 per child + 30 000 per child born after 2018	
Education allowance (for children attending educational institutions in Thailand)	2 000 per child	
For parent of taxpayer or spouse (over 60 years old with annual income of less than THB 30 000)	30 000 per parent	
For disabled person under taxpayer's custody	60 000	
Tax exemptions for expenses		
Expenses for antenatal case and giving birth	Actual amount paid	up to 60 000 per pregnancy
Travelling and transport expenses	Actual amount paid	up to THB 240 per day for domestic travel THB 3 100 for international travel
Education expenses of taxpayer or a dependent child	Actual amount paid	up to 15 000 per person
Purchase of goods and services under Easy e-Receipt	Actual amount paid	up to 40 000
Tax deductions on contributions		
Social Security Fund	Actual contribution	up to 9 000
Provident funds	Actual contribution	up to 15% or 500 000
Retirement Mutual Fund	Actual contribution	up to 30% or 500 000
Super Saving Fund (terminates in 2024)	Actual contribution	up to 30% or 200 000
Government Pension Fund (public-sector workers)	Actual contribution	up to 30% or 500 000
Private Teacher Aid Fund	Actual contribution	up to 15% or 500 000
National Savings Fund	Actual contribution	up to 500 000
Thai ESG Fund	Actual contribution	up to 30% or 300 000
Investment in social enterprises	Actual contribution	up to 100 000
Political parties donation (Organic Act on Political Parties B.E. 2560, 2017)	Actual amount donated	up to 10 000
Donations to organisations/institutions listed in the Gazette:		
(1) Temples, government agencies (for the donation to the nation's natural disaster victims), charitable institutions, government employee welfare, or funds	(1) Actual amount donated	(1) Max. 10% of the income after standard deductions and other allowances including (2).
(2) Public hospitals, educational institutions, athletics, and others (such as the Thai Red Cross, Bhadra Maharajanusorn Charity, Siriraj Foundation).	(2) Twice the actual amount donated	(2) Max. 10% of the income after standard deductions and other allowances but not including (1).
Tax deductions on premiums and interest		
Pension insurance premiums	Actual premium paid	up to 15% or 200 000
Life insurance premiums	Actual premium paid	up to 100 000 (including health insurance premium)
Health insurance premiums	Actual premium paid	up to 25 000
Health insurance premiums for parents (with assessable income below THB 30 000)	Actual premium paid	15 000 per qualified parent
Home mortgage interest	Actual interest paid	up to 100 000

Note: The total amount deducted for all retirement and long-term savings must not exceed THB 500 000 in the same fiscal year. The tax deduction for the Super Savings Fund is only available until fiscal year 2024. ESG Fund = Environmental, Social and Governance Fund.

Source: IBFD (2024^[3]), *Country Tax Guides*.

Figure 3.6. Top statutory PIT rates, thresholds and number of PIT brackets in Thailand and selected countries, 2024



Note: In Panel B, all OECD countries and Thailand are displayed.

Source: OECD (2024), *Personal Income Tax Database*; Social Security Office of Thailand; IBFD (2024^[3]), *Country Tax Guides*.

Individuals can opt to have their capital income taxed under the progressive schedule while benefiting from a tax credit. As mentioned in Chapter 2, taxpayers can include the dividend income in their PIT return and receive a tax credit equal to one-quarter of the dividend income to be applied against their PIT liability. Similar rules apply to interest income from bonds, debentures, savings deposits or loans. Taxpayers can include interest income in their taxable income, subject to the progressive PIT rate schedule and benefit from a tax credit. Finally, capital gains are subject to the progressive rates of the PIT, as there is no specific capital gains tax in Thailand.

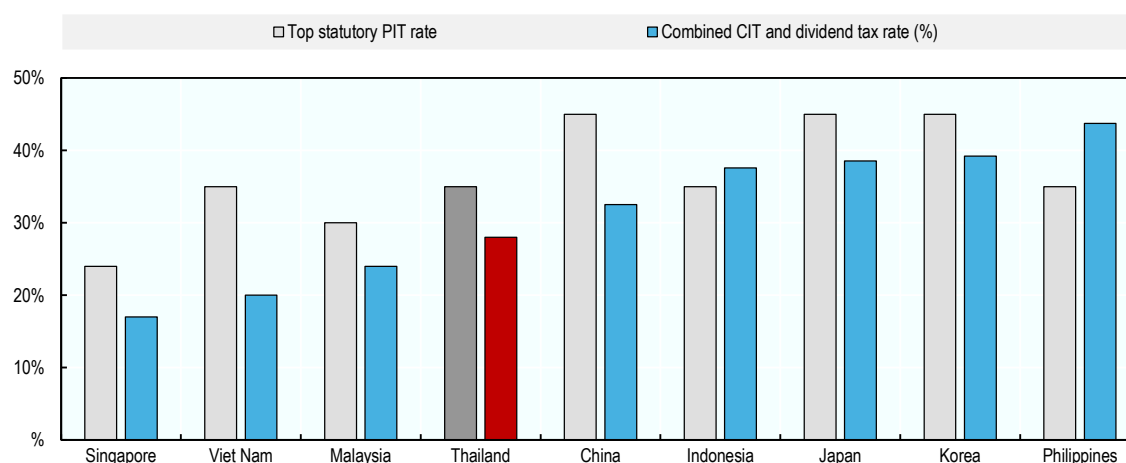
Pension income in Thailand is currently exempt from PIT. According to the Revenue Code, pensions received from the SSF are fully tax-exempt, which is an unusual policy given that contributions to the SSF are also exempt. However, even if pensions were subject to taxation, the low replacement rates suggest that most pensions likely remain below the exempt threshold.

The tax system creates a tax-induced incentive for firms to incorporate

In Thailand, the top statutory tax burden on labour income exceeds that on capital income. Labour income is subject to the progressive tax schedule, with a top statutory rate of 35%. In contrast, corporate profits are taxed at a flat rate of 20% (except for small and medium-sized enterprises [SMEs]), and dividends are subject to a 10% withholding tax rate. In most peer countries, the tax rate on labour income exceeds that on capital income (Figure 3.7). These disparities in the tax treatment of labour and capital income incentivise the self-employed to incorporate their businesses.

Figure 3.7. Tax rates on labour and capital income in Thailand and selected countries, 2024

Top statutory PIT rates and combined corporate income tax (CIT) and dividend withholding tax rates, in %, 2024



Note: The combined tax rate on capital income is calculated as the sum of the CIT rate and the product of the dividend withholding tax rate (WHT) and the untaxed profits share ($\tau_{CIT} + (1 - \tau_{CIT}) \cdot \tau_{WHT}$).

Source: OECD (2024^[7]), *Corporate Tax Statistics Database*, <https://www.oecd.org/en/data/datasets/corporate-income-tax-rates-database.html>; IBFD (2024^[3]), *Country Tax Guides*.

To mitigate the tax burden on labour income, manager-owners face a tax-induced incentive to incorporate their business and compensate themselves with a low salary, such that they can retain the profits within the company or distribute them as dividends instead. This form of tax arbitrage through closely held companies has been documented in many OECD countries (Zawisza et al., 2024^[8]). Manager-owners of closely held corporations are incentivised to minimise their tax liability by paying themselves a low wage and receiving remuneration in the form of dividends, which are taxed at 10%. Alternatively, manager-owners can retain the profits within their business to defer taxation or realise the capital gains upon selling their shares. The choice between distributing profits as dividends or retaining earnings in the company depends on the relative effective tax rates. If the effective tax rate on retained profits is lower than that on newly issued equity, firms have an incentive to retain profits, or vice versa. To mitigate tax arbitrage by manager-owners, Thailand could consider requiring them to pay themselves a “minimum” salary.

The proposed reduction in general PIT allowances may further incentivise incorporation. Currently, the effective tax burden on labour income is relatively low due to numerous deductions. A reform of the PIT system, including the removal of certain PIT deductions, would reinforce incentives to incorporate if the tax treatment of capital income remains unchanged. Better alignment of the tax burden on capital and labour income would necessitate reforms to both the labour and capital income tax rates (e.g. reducing the top marginal PIT rates and increasing the withholding tax rate on dividends).

The impact of SSC and the PIT needs to be assessed jointly

A tax and benefit model makes it possible to assess the overall tax burden on labour income, encompassing the effects of SSC, PIT and net cash benefits. The Thai tax system is assessed using the OECD's Taxing Wages model (OECD, 2024^[9]). This model aims to illustrate the interaction between PIT and SSC, evaluate how these levies and benefits impact net household incomes, assess the overall tax burden on labour income, and identify weaknesses and tax notches in a country's labour tax and benefit system. The model also incorporates the impact of cash transfers, such as the State Welfare Card (SWC), a means-tested benefit. The Taxing Wages model is adopted for private sector employees in Thailand (see Box 3.B.1 for the methodology and Box 3.B.2 for Thailand's parameters in Annex 3.B).

The current tax system is not optimally designed

The tax and benefit model assessment indicates that the tax wedge is regressive for private sector employees across most of the income distribution, primarily due to the low SSC ceiling. The tax wedge measures the difference between total labour costs for the employer and the corresponding net remuneration of the employee. While the benefit system exhibits some progressivity at the lower end of the income distribution due to the SWC cash transfers, the tax system is regressive across most of the income distribution. Specifically, the average SSC costs for employees and employers remain constant at 10% of the tax wedge up to 87% of the AW, after which they begin to decline, reaching 6% of the tax wedge at 250% of the AW (Figure 3.8, top left graph). This reduction in the average tax wedge is attributed to the low SSC ceiling of the THB 15 000 monthly wage. For income exceeding 2.25 times the AW, the average tax wedge starts to rise steadily for single taxpayers, reaching 6.6% at 3 times the AW. The progressivity at the higher end of the income distribution is driven by the PIT schedule.

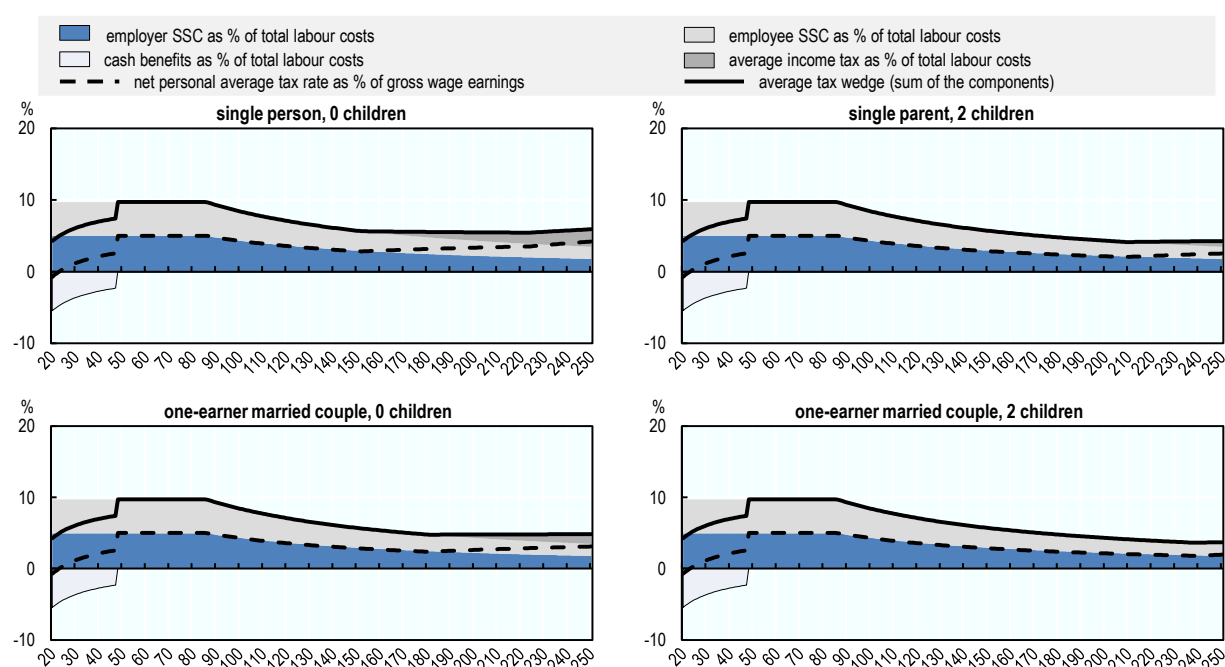
The SWC benefit results in a near-zero average personal tax rate for low-wage earners, which progressively increases with income. Under the SWC, households with annual incomes below THB 30 000 receive a cash transfer of THB 300 per month, while those earning between THB 30 000 and THB 100 000 per year receive THB 200 per month.² As a result, the SWC provides an annual cash benefit of THB 3 600 for low-income earners. For individuals with very low earnings (equivalent to 10% of the AW), this benefit translates into a negative tax wedge of 6.6% (Figure 3.8). For those earning 25% of the AW, the SWC cash transfers represent 4.4% of total labour costs, resulting in a total tax wedge of 5.4%.

The tax system provides limited differential treatment for taxpayers with or without children aged 6 to 11 years.³ At the lower end of the income distribution – below 17% of the AW – the average tax wedge is reduced for low-income families with children who receive a cash transfer of up to THB 3 000 per child per year from the Equitable Education Fund. For households earning above 1.5 times the AW, the average tax wedge is only marginally lower for families with two children due to the additional spouse and child tax allowance (Figure 3.8, bottom right graph). At income levels of 50% and 100% of the AW, a married couple with two children faces almost the same average tax wedge as a single taxpayer with no children (9.7% and 8.4%, respectively). At higher income levels, the average tax wedge is slightly lower for the one-earner married couple with two children than the single taxpayer without children (Table 3.4).

When the Child Support Grant (CSG) is considered, the average tax wedge for taxpayers with children up to six years is significantly lower. The CSG provides a monthly cash transfer of THB 800 to low-income families with children up to six years of age. The two right-hand graphs in Figure 3.9 illustrate the tax wedge for families with children under six years, incorporating the impact of the CSG. A one-earner married couple with two children below six years old faces a tax wedge of -12% at 25% of the AW (5.7% without the CSG) and a tax wedge of 1% at half of the AW (9.7% without the CSG). As a result, families receiving the CSG benefit from negative net personal average tax rates up to 2.5 times the AW, indicating that their total benefits exceed their tax liabilities. For a single parent with two children, the tax wedge is equivalent to that of a one-earner married couple with two children across most income levels. However, at higher income levels (specifically at 250% of the average wage), the tax wedge for single parents is marginally higher than for married couples with children (2% compared to 1.7% of gross income, Figure 3.9).

Figure 3.8. Average tax wedge decomposition in Thailand, 2024

By level of gross earnings expressed as a % of the average wage



Note: The average tax wedge (vertical axis) measures the sum of PIT and employee and employer SSC less SWC cash benefits, measured as a percentage of labour costs. The net personal average tax rate measures the sum of PIT and employee SSC expressed as a percentage of gross wage earnings. On the horizontal axis, shares of the average private sector wage (THB 17 476 per month in May 2024) are displayed, ranging from 20% to 250% of AW. This model considers children aged between 6-11 years and therefore does not include the Child Support Grant. It also does not include PIT deductions for contributions to private savings and retirement funds.

Source: Own elaboration based on OECD Taxing Wages model as found in OECD (2024^[9]), *Taxing Wages 2024: Tax and Gender through the Lens of the Second Earner*, <https://doi.org/10.1787/dbcbac85-en>.

Table 3.4. Average tax wedge for single workers and married couples with children in Thailand, 2024

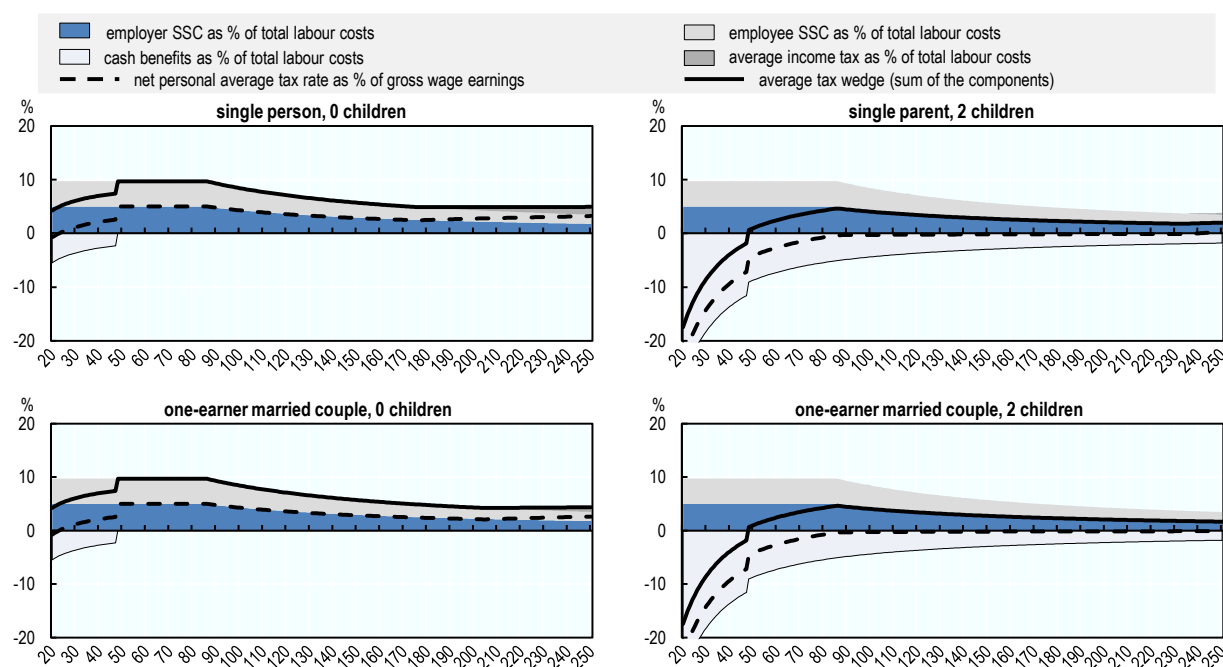
Average wage	Single person, no children		One-earner married couple, two children	
	Average tax wedge	Marginal tax wedge	Average tax wedge	Marginal tax wedge
50%	9.7%	9.7%	9.7%	9.7%
100%	8.4%	0.2%	8.4%	0.2%
200%	5.5%	5%	4.3%	0.0%
250%	5.9%	10%	1.9%	5%

Note: The average tax wedge measures the sum of PIT and employee's and employer's SSC, less cash benefits expressed as a percentage of labour costs. The marginal tax wedge measures that part of an increase in total labour costs that is paid in taxes and SSC, less cash benefits.

Source: Own elaboration based on OECD Taxing Wages model as found in OECD (2024^[9]), *Taxing Wages 2024: Tax and Gender through the Lens of the Second Earner*, <https://doi.org/10.1787/dbcbac85-en>.

Figure 3.9. Average tax wedge, including the impact of the Child Support Grant and the PIT deductions for private savings in Thailand, 2024

By level of gross earnings expressed as a % of the average wage



Note: The average tax wedge (vertical axis) measures the sum of PIT and employee and employer SSC, less cash benefits expressed as a percentage of labour costs. The net personal average tax rate measures the sum of PIT and employee SSC expressed as a percentage of gross wage earnings. On the horizontal axis, shares of the average private sector wage (THB 17 476 per month in May 2024) are displayed, ranging from 20% to 250% of AW. This model considers children under 6 years old and includes the Child Support Grant, the PIT deductions for contributions to private savings and retirement funds, and the baseline model.

Source: Own elaboration based on OECD Taxing Wages model as found in OECD (2024^[9]), *Taxing Wages 2024: Tax and Gender through the Lens of the Second Earner*, <https://doi.org/10.1787/dbcbac85-en>.

Personal income tax deductions for contributions to voluntary private pension funds contribute to the regressivity of the PIT system by reducing the tax wedge for high-income earners. Under the Revenue Code, taxpayers can deduct contributions to private pension funds or long-term savings funds up to a maximum of THB 500 000 annually (see Table 3.3 for an overview of the eligible funds). This generous deduction ceiling disproportionately benefits high-income earners. When adjusting the model to

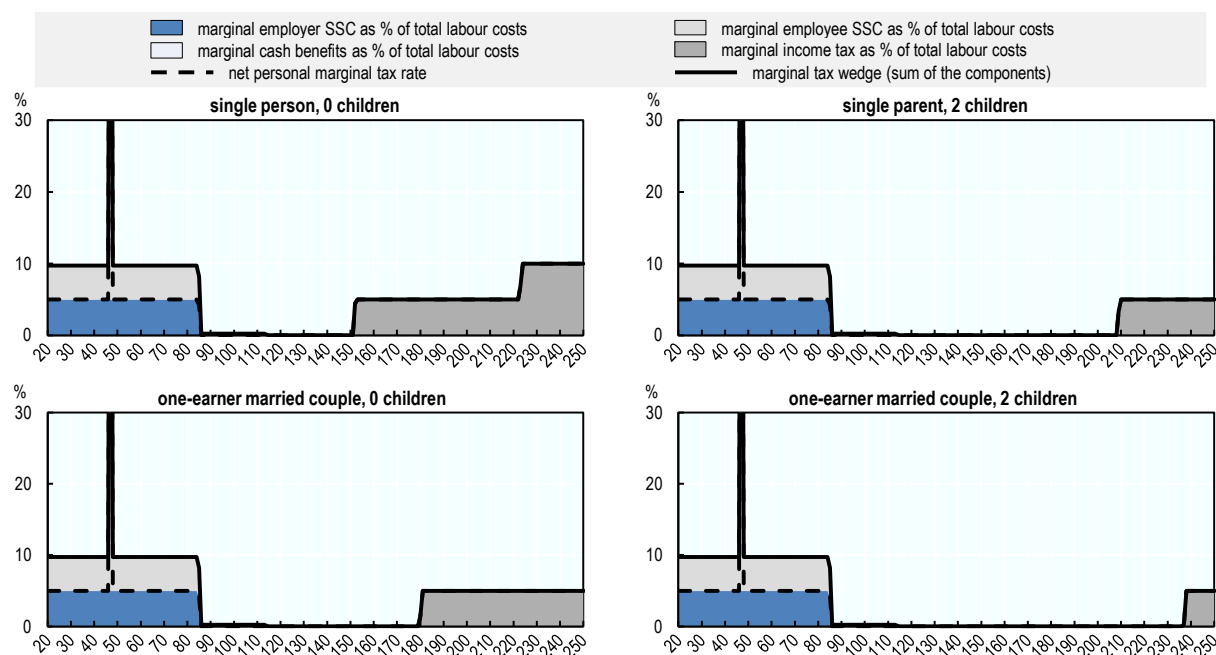
incorporate the deduction, the tax wedge for a single taxpayer who deducts the maximum amount for long-term savings (THB 500 000) is reduced to 4.9% at twice the AW (Figure 3.9, top left graph). Consequently, the PIT deduction for contributions to private saving funds further exacerbates the regressivity of the tax system.

The OECD’s Taxing Wages model indicates that marginal tax rates for low-income earners are higher than for middle-income earners. The marginal tax wedge measures the share of an *increase* in total labour costs that is paid in taxes and SSC minus cash benefits. For a low-income single taxpayer without children (earning up to 87% of the AW), the marginal effective tax rate remains flat at 9.7% of gross earnings (except for a spike at 48% of AW when cash benefits are withdrawn). In contrast, middle-income earners (87% to 150% of the AW) face a marginal tax wedge close to zero, as their income exceeds the SSC ceiling but remains below the effective PIT threshold. An increase in income does not translate into an increase in labour costs for these middle-income earners. For higher-income earners (above 150% of the AW), the marginal effective tax rate increases as the progressive PIT schedule takes effect (Figure 3.10, top left graph). The highest marginal effective tax rate then applies only at 25 times the AW (THB 5 169 000 annually), where the marginal PIT rate reaches 35%.

The withdrawal of SWC benefits creates “spikes” in the tax system and could create disincentives to formalisation. The reduction of the SWC cash transfer from THB 300 to THB 200 per month at 14% of the AW and its complete withdrawal at 48% of the AW creates “spikes” in the tax system, resulting in exceptionally high – near-infinite – marginal tax rates. This effect is observed across all four types of households (Figure 3.10). Consequently, workers could be encouraged to maintain their formal wages just below the income eligibility threshold or remain in informal employment. To maintain eligibility for cash benefits, workers may opt to receive part or all of their wages as undeclared “envelope wages” (i.e. cash payments that are not reported for tax and social security purposes). This allows workers to continue receiving cash benefits. Evidence from other countries indicates that individuals reduce their formal labour supply at the margin to avoid losing cash benefits (Bargain and Doorley, 2017^[10]; Levy, 2008^[11]). A potential reform measure to address this could be a gradual phasing out of the cash benefit. A more progressive phase-out mechanism would reduce incentives for wage bunching and undeclared cash payments. An alternative measure could be to remove the strict eligibility threshold for the SWC and allow beneficiaries to retain access to benefits even if their income exceeds the limit (e.g. Uruguay suspended the monitoring of the income threshold for family allowance recipients in 2022).

Figure 3.10. Marginal tax wedge decomposition in Thailand, 2024

By level of gross earnings expressed as a % of the average wage



Note: The marginal tax wedge (vertical axis) measures that part of an *increase* in total labour costs that is paid in taxes and SSC, less cash benefits. The net personal marginal tax rate measures the impact of a marginal *increase* in gross earnings on PIT, SSC and cash benefits. On the horizontal axis, shares of the average private sector wage in May 2024 (THB 17 476 per month in May 2024) are displayed, ranging from 20% to 250% of AW. This model considers children aged between 6-11 years and therefore does not include the Child Support Grant. It also does not include PIT deductions for contributions to private savings and retirement funds.

Source: Own elaboration based on OECD Taxing Wages model as found in OECD (2024^[9]), *Taxing Wages 2024: Tax and Gender through the Lens of the Second Earner*, <https://doi.org/10.1787/dbcbac85-en>.

The estimated impact of an illustrative reform on average and marginal tax rates

Following the identification of the key tax and benefit notches that contribute to the regressivity of the PIT and SSC system in Thailand, an illustrative reform is proposed, and its potential impact is assessed.

The proposed reform includes the following elements:

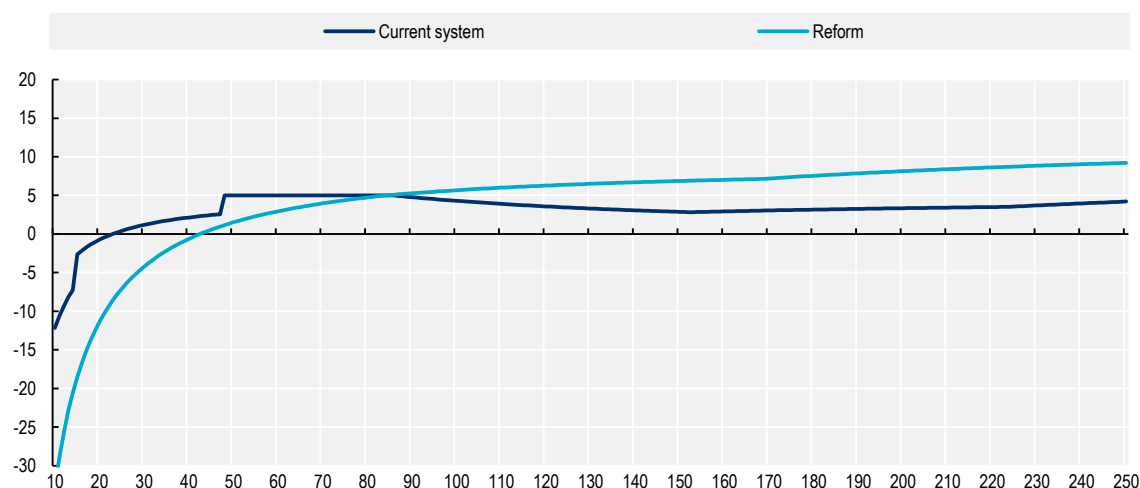
- Increase the SSC ceiling to 2.5 times the average wage, which is similar to the ceiling of peer countries.
- Replace the SSC rate paid by the government with SSC paid by employers, but only for the top income quintile earners.
- Lower the 50% general tax allowance to 10% (with the same cap) and abolish the single taxpayer allowance.
- Replace the SWC with an unconditional cash transfer with a higher amount for all individuals with income below THB 14 700 per month and a longer phasing out (see Chapter 1).

The proposed reform aims to restore the progressivity of the average tax rate across the income distribution. Figure 3.11 shows the net personal average tax rate for wages ranging from 10% to 250% of the AW under the current system and after the proposed reform. In the current system, the average tax rate decreases for earnings above 85% of the AW. Conversely, under the proposed reform, the average

tax rate would increase for higher wage earners, thereby restoring the progressivity of the tax system for all four types of taxpayers. The effect of the reform can be decomposed by the different reform elements.

Figure 3.11. Net personal average tax rate under Thailand's current tax system and after the proposed reform

By level of gross earnings expressed as a % of the average wage



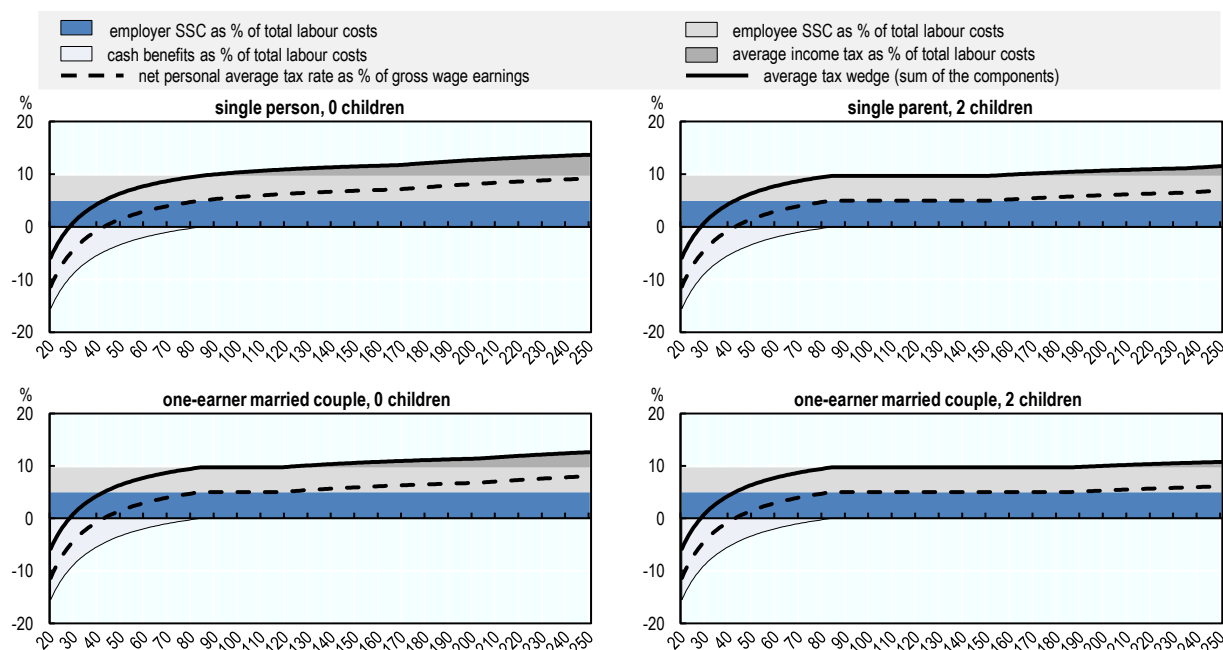
Note: The graph shows a single taxpayer's net personal average tax rate, measuring the sum of PIT and employee SSC expressed as a percentage of gross wage earnings. On the horizontal axis, shares of the average private sector wage (THB 17 476 per month in May 2024) are displayed, ranging from 10% to 250% of AW. The current system refers to the current tax and benefit system in Thailand. Under the reform scenario, the SSC ceiling is increased to 2.5 times the AW, the general PIT allowance is reduced to 10%, the single taxpayer allowance is removed, and the SWC cash benefit is phased out.

Source: Own elaboration based on OECD Taxing Wages model as found in OECD (2024^[9]), *Taxing Wages 2024: Tax and Gender through the Lens of the Second Earner*, <https://doi.org/10.1787/dbcbac85-en>.

An increase of the SSC ceiling would result in a higher tax wedge for taxpayers with wages exceeding the current ceiling. Under this scenario, both the personal average tax rate and the tax wedge (including employer SSC) would increase up to the new SSC ceiling set at 2.5 times the AW (Figure 3.12). This reform proposal aligns the SSC ceiling with the levels found in Japan and other Asian peer countries, where SSC ceilings exceed 200% of the AW. In OECD countries, the SSC ceilings generally apply to wages exceeding 167% of the AW (OECD, 2024^[9]). Additionally, the 2.75% SSC subsidy currently provided by the Thai government to all private sector employees could be replaced for top-quintile earners by increased employer SSC. This adjustment would raise the tax wedge for high-income earners while providing the government greater fiscal flexibility.

Figure 3.12. Average tax wedge decomposition in Thailand after the proposed reform

By level of gross earnings expressed as a % of the average wage



Note: The four graphs model the tax wedge decomposition under the proposed reform for the four different types of taxpayers. The average tax wedge (vertical axis) measures the sum of PIT and employee and employer SSC, less cash benefits, expressed as a percentage of labour costs. The net personal average tax rate measures the sum of PIT and employee SSC expressed as a percentage of gross wage earnings. On the horizontal axis, shares of the average private sector wage (THB 17 476 per month in May 2024) are displayed, ranging from 20% to 250% of AW. This model considers children aged between 6-11 years and therefore does not include the Child Support Grant.

Source: Own elaboration based on OECD Taxing Wages model as found in OECD (2024^[9]), *Taxing Wages 2024: Tax and Gender through the Lens of the Second Earner*, <https://doi.org/10.1787/dbcbac85-en>.

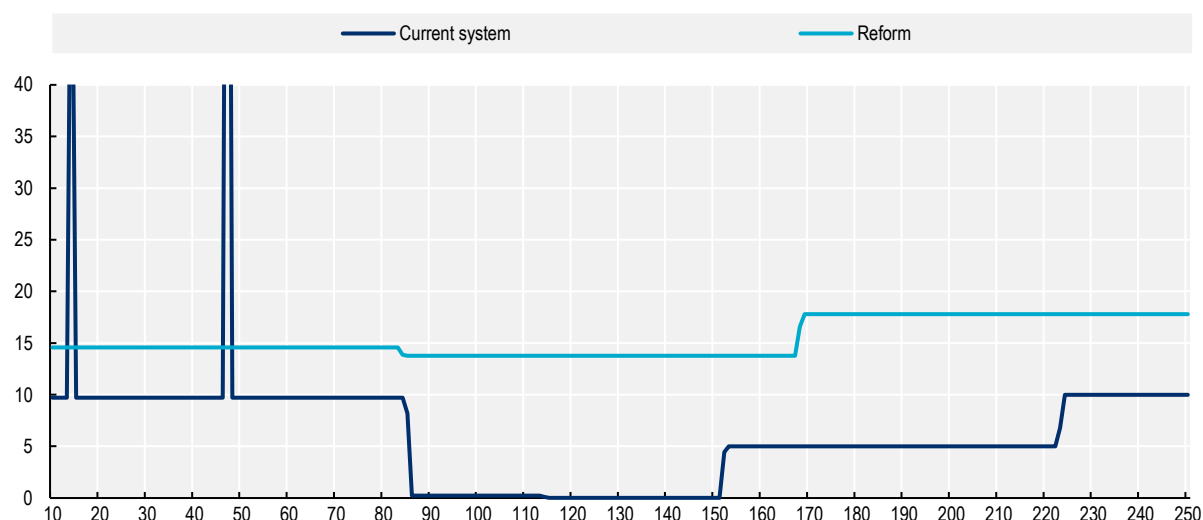
Reducing the general PIT allowance and removing the single taxpayer allowance could reduce the threshold at which the PIT rate effectively applies. This reform element would increase taxable incomes and, consequently, the tax wedges for medium- and higher-income earners (Figure 3.11). Although this measure may introduce some disincentives to formalisation, it is expected to improve both revenue collection and the progressivity of the PIT system.

The proposed gradual phase-out of the cash benefit under the SWC for low-income earners would remove notches in the current tax system. The tax notches observed under the current tax and benefit system, around 14% of the AW and just below 50% of the AW, can be addressed by gradually phasing out the cash benefit, eventually reducing it to zero (Figure 3.11). The design of the unconditional cash transfer proposed in Chapter 1 allows for such a gradual phase-out.

The proposed reform would strengthen the progressivity of the tax system. Under the current tax system, the marginal tax wedge is regressive and near zero for workers earning between 87% and 150% of the AW (Figure 3.13). The proposed reform introduces a steadily increasing marginal tax wedge, ensuring greater progressivity across the income distribution. Increasing the SSC ceiling extends employee and employer SSC up to 2.5 times the AW. Additionally, replacing the SWC with the unconditional cash transfer with a phase-out removes tax notches at the margins. Finally, adjustments to the PIT allowances lower the thresholds for the first PIT brackets and ensure a more gradual increase in marginal tax rates for high-income earners.

Figure 3.13. Marginal tax wedge in Thailand's current tax system and after the reform

By level of gross earnings expressed as a % of the average wage



Note: The graph shows the marginal tax wedge for a single taxpayer, measuring that part of an *increase* in total labour costs that is paid in taxes and SSC, less cash benefits. On the horizontal axis, shares of the average private sector wage (THB 17 476 per month in May 2024) are displayed, ranging from 10% to 250% of AW. The current system refers to the current tax and benefit system in Thailand. The reform series refers to the illustrative reform, where the SSC ceiling is increased to 2.5 times the AW, the general PIT allowance is reduced to 10%, the single taxpayer allowance is removed, and the SWC cash benefit is phased out.

Source: Own elaboration based on OECD Taxing Wages model as found in OECD (2024^[9]), *Taxing Wages 2024: Tax and Gender through the Lens of the Second Earner*, <https://doi.org/10.1787/dbcbac85-en>.

Estimated impact on tax revenue

The proposed reform could enhance tax revenue mobilisation by approximately 0.32% of GDP.

Using salary distribution data from the Social Security Office (SSO), a back-of-the-envelope calculation estimates the static revenue effects of the proposed reform, assuming no behavioural changes (Table 3.5). The total revenue gain from the proposed reform is estimated at approximately 0.32% of GDP, or THB 55 billion per year. Increasing the SSC ceiling to 250% of the AW (about THB 43 690 per month) is projected to increase revenue by THB 36 billion per year (0.21% of GDP). If the ceiling were entirely removed, the revenue gain would be even higher, reaching 0.61% of GDP. Similarly, a reduction of the general tax allowance from 50% to 10% and a removal of the single taxpayer allowance are estimated to increase tax revenues by THB 25 billion per year (0.15% of GDP). Considering the interaction effects between the SSC and PIT reforms, the projected revenue increase from PIT would be slightly lower at THB 23 billion (0.13% of GDP) because additional SSC can be deducted from taxable income. Taxpayers making higher contributions could deduct these amounts from their taxable income (up to a ceiling of THB 9 000 per year), which reduces their overall tax liability. The gradual phasing out of the cash benefit could be designed to remain nearly revenue neutral, with a projected fiscal impact of THB -4 billion per year (-0.02% of GDP).

Table 3.5. Revenue estimates for the proposed tax reform measures in Thailand

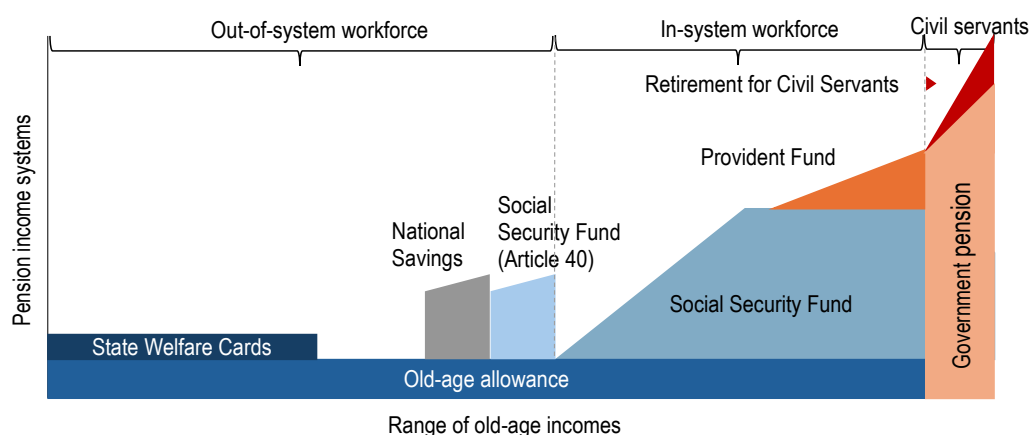
Reform measures	Description	Revenue gain (THB)	Revenue gain (% GDP)
Increase SSC ceiling	Increase ceiling from THB 15 000 to about THB 43 690 monthly wage (250% of AW).	36 billion	0.21%
Reduce PIT allowances	Lower the 50% tax allowance to 10%, and abolish the personal tax allowance of THB 60 000 per year.	25 billion	0.15%
Joined SSC and PIT reform	If the SSC ceiling and PIT allowances are reformed together, the joint reform yields a little less revenue than the sum of both single reforms because SSC can be deducted from taxable income in the PIT declaration.	SSC: 36 billion PIT: 23 billion Total: 59 billion	SSC: 0.21% PIT: 0.13% Total: 0.34%
Replace the SWC with an unconditional cash transfer with a phase-out	Replace the SWC with an unconditional cash transfer for individuals with incomes below the first PIT threshold of THB 14 700 per month, a starting benefit of THB 750 per month and phasing out.	-4 billion	-0.02%
Total		55 billion	0.32%

Source: OECD calculations based on the wage distribution of formal private sector employees from May 2024, provided by the Social Security Office of Thailand.

The Thai pension system needs reform

The Thai public pension system is fragmented

Thailand administers both contributory and non-contributory public pension schemes, each offering distinct pension benefits (Figure 3.14). As outlined in Chapter 1, non-contributory pension schemes include the Old-Age Allowance (OAA), which provides near-universal coverage (excluding civil servants), and the civil service pension for civil servants. Contributory schemes are classified into defined-benefit (DB) and defined-contribution (DC) schemes. Defined-benefit schemes (e.g. SSF Articles 33 and 39) provide pre-determined income based on a fixed benefit formula. Despite offering more adequate pension benefits, DB schemes face significant challenges in maintaining long-term financial stability due to rapid population ageing. Conversely, DC schemes (e.g. the National Savings Fund and SSF Article 40) calculate benefits based on individual contributions and investment returns. Although DC schemes mitigate financial risk issues, they often do not provide adequate pension benefits for older people.

Figure 3.14. Pension income systems in Thailand

Note: This graphical illustration only displays income security systems for older persons managed by the Thai government. Additional private pension funds are not displayed.

Source: Adapted from Department of Older Persons (2023^[12]), *Situation of the Thai Older Persons 2022*.

Contributions and benefits vary across Thailand's contributory pension schemes. Table 3.6 provides an overview of the pension income systems managed by the Thai government, with the exception of provident funds, which operate under private management. Private sector employees contribute to the SSF under Articles 33 and 39, which entitle them to receive a lump sum or a monthly pension. Additionally, they may supplement their pension income by contributing to private provident funds. Civil servants participate in a separate pension system, which includes a non-contributory civil servant pension and mandatory contributions to the Government Pension Fund. Informal workers can make voluntary contributions to either the National Savings Fund or the SSF Article 40 to receive either lump-sum payments or gradual pension payouts upon reaching retirement age (see Chapter 4).

Table 3.6. Overview of pension schemes in Thailand

Pension scheme	Eligible group	Fund size: % of working population (accumulated assets in % GDP)	Retirement age	Contributions	Benefits
Old-Age Allowance (OAA) <i>*Universal</i>	Thai citizens with income below indicated thresholds, except civil servants	83% eligible for benefits	60 years	None	THB 600-1 000 per month (age dependent)
National Savings Fund (NSF) <i>*DC</i>	Voluntary for workers not covered by the SSF	2.1% active contributors (0.1% GDP)	60 years	Employee: THB 50-13 200 per year Government: THB 600, THB 960, THB 1 200 (age dependent)	Total savings/240 (12 months x 20 years) Floor: THB 600/month Ceiling: If savings depleted
SSF Article 33 <i>*DB</i>	Mandatory for private sector employees (except seasonal/domestic/temporary workers)	31.1% contributing THB 1 800 billion (11% GDP) for Articles 33 and 39	55 years	Employee: 3% Employer: 3% Government: <1% Total: 6.35%	Lump sum of contributions made if contributed <15 years; lifetime pension of 20-50% of average wage if contributed >15 years (Ceiling: THB 15 000 wage per month)
SSF Article 39 <i>*DB</i>	Voluntary for those formerly employed under Article 33	4.4% contributing	55 years	Fixed at THB 432/month (9% of THB 4 800 monthly wage)	Same as under Article 33, but pension as % of base wage (THB 4 800)
SSF Article 40 <i>*DC</i>	Voluntary for informal workers, self-employed, not covered under Articles 33 or 39	2.8% active contributors (0.1% GDP)	60 years	Options 2 and 3: Employee: THB 100 or THB 300/month (Ceiling: THB 1 000/month) Government: THB 50 or max. THB 150/month	Lump sum based on total employee and employer contributions + interest
Provident funds (private) <i>*DC</i>	Voluntary for private sector employees	3.9% members THB 1 383 billion (7.9% GDP)	55 years	Employee: 2-15% Employer: 2-15%	Lump sum of total savings + interest (eligible for tax deductions)
Retirement Mutual Funds <i>*DC</i>	Voluntary for private sector employees and informal workers	THB 404 billion (2.3% GDP)	55 years	Employee: Flexible individual contributions/year	Lump sum of total contributions + interest (eligible for tax deductions)
Civil service pension <i>*DB</i>	All civil servants with at least ten years of service	6% eligible	60 years	None	Lump sum if 10-25 years of service; lifetime pension if >25 years of service
Government Pension Fund <i>*DC</i>	Mandatory for civil servants	6% eligible (2.6% GDP)	60 years	Employee: 3-15% Government: 5%	Lump sum or gradual withdrawal of total savings + interest

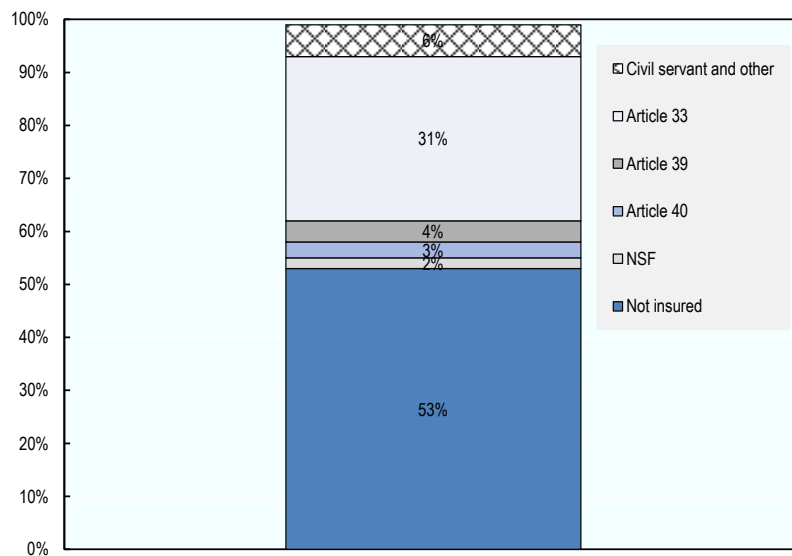
Note: The list includes all major established pension funds in Thailand. Some small-scale pension funds are not listed due to limited membership (e.g. Private Teachers Aid Fund). In Column 1, the type of pension scheme is indicated: DB= defined-benefit scheme; DC= defined-contribution scheme. Column 3 provides the share of contributors in different pension schemes relative to the work population in Thailand in 2019 (ILO et al., 2022^[13]). However, if not indicated otherwise, the numbers are an aggregate of active and inactive contributors. The size of accumulated assets in each fund refers to numbers from 2022.

Source: Adapted from ILO et al. (2022^[13]), *Thailand Social Protection Diagnostic Review: Review of the Pension System in Thailand*, <https://www.ilo.org/publications/thailand-social-protection-diagnostic-review-review-pension-system-thailand>.

The SSF is the largest contributory public pension fund for private sector workers in Thailand, characterised by low contribution rates compared to international standards. Approximately 30% of the Thai population contributes to the compulsory pension scheme under Article 33 (Figure 3.15), while 7% participate in voluntary pension schemes under Articles 39 and 40 (Chapter 4). Pension contributions and benefits vary across these three schemes (Table 3.6 provides a summary, while Table 3.A.1 in Annex 3.A provides a detailed description of social insurance schemes). Under the mandatory scheme (Article 33), employees and employers each contribute 3% of gross earnings to the pension fund and the government supplements this with a 1% contribution. At a total contribution rate of 7% of gross earnings, Thailand has the lowest compulsory pension contribution rate among its regional peers (Figure 3.16).

Figure 3.15. Coverage of pension schemes in Thailand, 2019

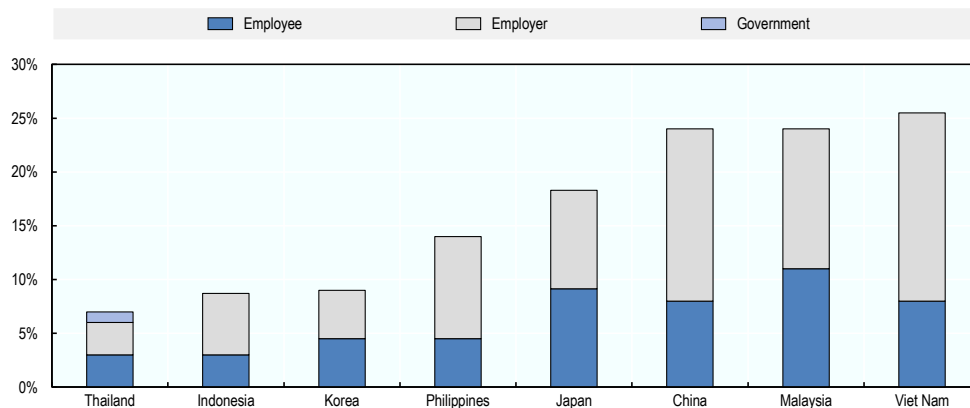
Percentage of the working-age population insured by old-age pension schemes, by scheme, 2019



Source: Adapted from ILO et al. (2022^[13]), *Thailand Social Protection Diagnostic Review: Review of the Pension System in Thailand*, <https://www.ilo.org/publications/thailand-social-protection-diagnostic-review-review-pension-system-thailand>.

Figure 3.16. Pension contribution rates in Thailand and selected countries, 2024

Social security contribution rates to public pensions, as % of gross wage, by employee, employer and government contribution rates, 2024



Note: Contribution rates refer to public pension funds where contributions are made through mandatory social security contributions. The contribution rates for Thailand refer to the SSF Article 33.

Source: IBFD (2024^[33]), *Country Tax Guides*.

Private sector workers can complement their public pension from the SSF by contributing to private pension schemes. The provident funds are voluntary, employer-sponsored private retirement savings plans, typically offered by large private sector companies, where both employees and employers contribute. Provident funds are managed investment funds, with assets allocated across bonds, stocks and other securities. The pension savings can be withdrawn at retirement age, with investment gains exempt from taxation. However, participation remains low, with less than 5% of the Thai population contributing to provident funds. An alternative supplementary pension could be a consumption-based pension, which directs a fixed percentage of consumer expenditure into an individual's savings account, as recently approved in Peru (see Box 3.1).

Box 3.1. Consumption-based pensions

Consumption-based pensions allocate a fixed percentage of consumer purchases to an individual's retirement savings account, linking everyday spending to pension accumulation. This approach can enhance pension contributions among workers in informal economies and those with irregular incomes, increasing overall coverage. As contributions depend on the consumption level, higher-income individuals are expected to contribute more. However, potential risks include reliance on consumer behaviour, exposure to economic fluctuations, and the challenge of ensuring adequate retirement savings for individuals with lower consumption levels. Given these limitations, consumption-based pensions are best suited as a supplementary pension component within a multi-tiered pension system.

Peru approved the introduction of a consumer-based pension in 2024 as part of broader pension system reforms. Under this initiative, 1% of the value from electronic receipts (with a cap of PEN 700 [Peruvian soles] for each invoice) is allocated to the individual's pension fund. Annual contributions are further limited to eight tax units, equivalent to PEN 41 200. Additionally, automatic enrolment in the pension system at the age of 18 aims to expand coverage, particularly among young workers.

Source: OECD.

Civil servants are covered by a separate pension system, receiving benefits from the DC Government Pension Fund and the non-contributory civil service pension. Most civil servant retirement benefits are financed by general government revenue, supplemented by employee and government contributions. The Government Pension Fund currently covers 6% of the Thai population (Figure 3.15), with pensions paid out either as a lump sum or through gradual withdrawals. Additionally, civil servants with more than 10 years of service are eligible for a non-contributory civil service pension, which is paid out as a lump sum (10-24 years of service) or as a lifetime pension (for over 25 years of service). As the population ages, the cost of both contributory and non-contributory civil service pensions is projected to increase significantly, reaching 2.4% of GDP by 2060 (ILO et al., 2022^[13]).

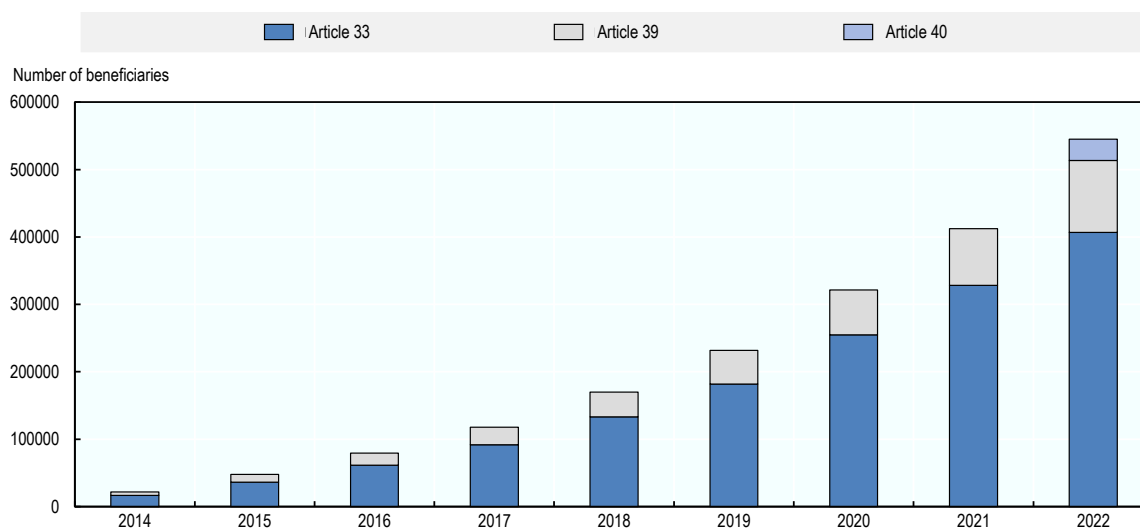
Since 2023, contributions made to the Government Pension Fund and the private sector provident funds are portable. Workers who transition between public and private sector employment can transfer their pension savings and accumulate contribution years. This reform improves the flexibility and integrity of the Thai pension system, thereby promoting better social protection for workers.

The financial stability of the SSF is at risk

The SSF faces significant challenges related to its long-term financial sustainability due to the increasing number of insured persons nearing retirement. The number of lump-sum pension benefits paid out has steadily increased over time (Figure 3.17). In 2022, 545 151 individuals insured under the SSF who had contributed for fewer than 15 years received a lump-sum old-age pension (Social Security

Office of Thailand and Ministry of Labour, 2022^[14]). Although the lump-sum payments are typically modest, the rising number of beneficiaries leads to a rapid increase in the SSF's expenditures and depleting reserves. Similarly, the number of beneficiaries receiving a lifetime pension under Article 33 of the SSF is increasing rapidly, necessitating substantial pension payouts in the coming decades. Without reform, expenditures are expected to exceed revenues, depleting the SSF's reserves by 2054 (ILO et al., 2022^[13]).

Figure 3.17. Number of Thai beneficiaries of the old-age lump sum per year, 2014-22



Note: Only the old-age lump-sum beneficiaries who have contributed less than 15 years are considered. No information was available on the beneficiaries of lifetime pensions.

Source: OECD calculations based on data from Social Security Office of Thailand and Ministry of Labour (2022^[14]), *Social Security Statistics 2022, Thailand*.

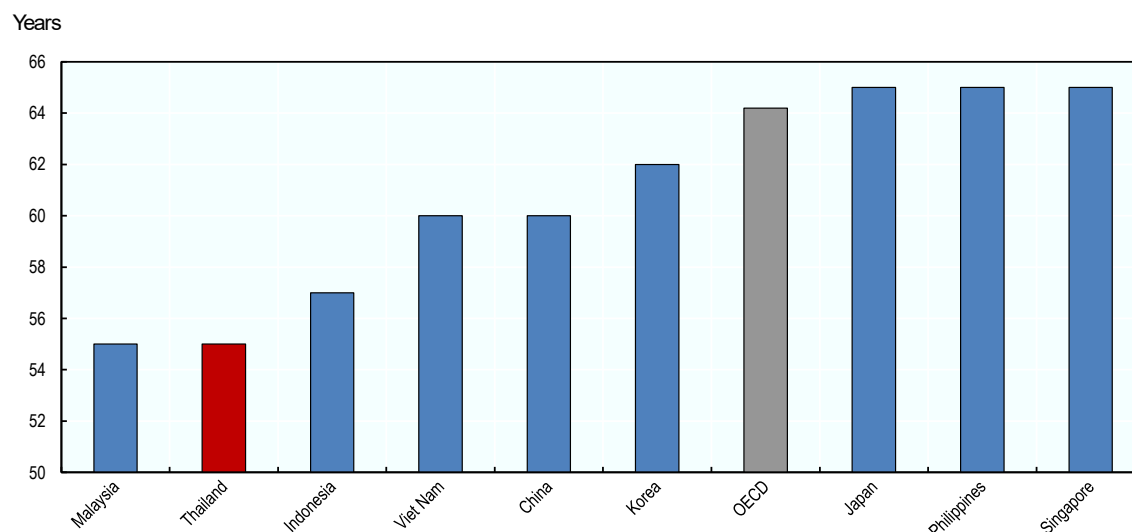
The pay-as-you-go pension scheme of the SSF is not yet mature, and the amount of lifetime pension payouts will continue to increase. Established in 1999, the SSF pension scheme will reach maturity in 2034, when the first cohort of individuals who have contributed to the SSF for the full 35-year period retires and receives their lifetime pensions with a 50% replacement rate. Currently, the maximum replacement rate for a lifetime pension is 35% of the former wage for individuals with 25 years of contributions (since 1999). As a pay-as-you-go pension scheme, the SSF relies on a continuous inflow of contributions from the workforce to finance retirees' benefits. The anticipated decrease in the workforce and increase in pension payouts pose challenges to this system.

The retirement age is low

Thailand has the lowest retirement age among Asian and OECD countries. Retirement ages in Thailand vary by employment sector: private sector employees retire at 55, while public servants and informal workers retire at 60. The non-contributory old-age pension is also available from age 60 (Table 3.6). The gap between the retirement age for private sector workers (55 years) and life expectancy at birth (80 years) is currently 25 years and is expected to widen as the population ages. In countries with similar demographic characteristics, the retirement age typically exceeds 60 years (Figure 3.18), with higher labour force participation rates among older workers. The average retirement age across OECD countries is currently 64 years, with many governments implementing reforms to raise it further (OECD, 2023^[15]).

Figure 3.18. Retirement ages in Thailand and selected countries, 2022

Retirement ages for a man with a full career from age 22, 2022



Source: Adapted from OECD (2022^[4]), *Pensions at a Glance Asia/Pacific 2022*, <https://doi.org/10.1787/2c555ff8-en>.

Many people in Asia remain active in the informal sector after retiring from formal employment (OECD/ERIA, 2025^[16]). In Thailand, particularly in rural areas, many retirees continue to work informally in the agricultural sector after reaching the official retirement age. A key factor driving this trend is the lack of incentives to increase pension entitlements under formal employment. However, shifting to the informal sector in old age comes with significant drawbacks. Informal workers lose access to employment protection rights when they leave the social security system. Strengthening incentives for older workers to remain in formal employment could help improve retirement security and reduce reliance on informal work.

A gradual increase in the retirement age is necessary to address population ageing and ensure the long-term sustainability of Thailand's pension system. Raising the retirement age to 60 years, for example, would increase the number of contributors to the SSF while reducing the number of beneficiaries, helping to maintain a balanced revenue-expenditure ratio of the fund in the future. In practice, the retirement age could be increased gradually over time and differ between employment sectors, allowing for earlier retirement for workers in physically demanding occupations. In addition, workers who reach retirement age without completing the required contribution years for a full lifetime pension should have the option to continue working in formal employment to enhance their pension entitlements.

The reference period for benefit calculation has implications for the financial sustainability of the SSF. Thailand is the only country in Asia and the Pacific that calculates lifetime pension benefits solely on wages earned during the last five years of employment. In contrast, most OECD countries consider wages throughout the entire career when determining pension entitlements (OECD, 2023^[15]). Only a few OECD countries base pension calculations on partial career earnings (Figure 3.19).

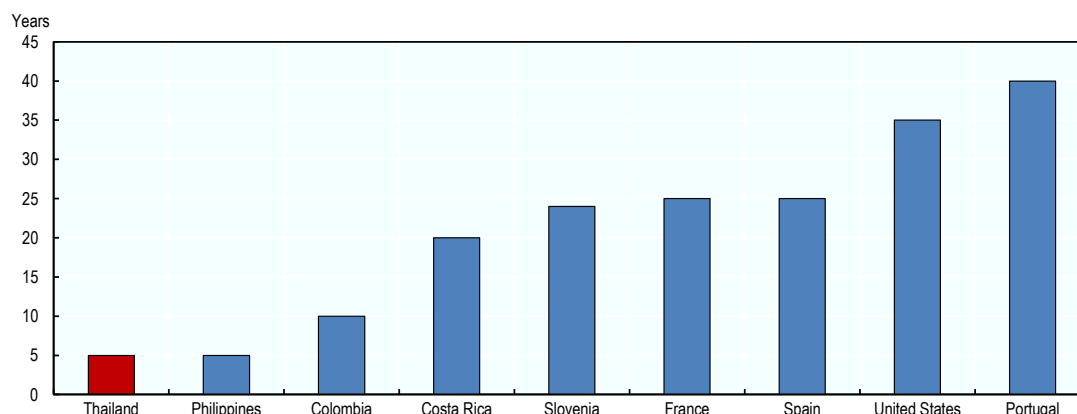
The low SSC ceiling contributes to low replacement rates for high-income earners

Pensioners with fewer than 15 contribution years are eligible only for a lump-sum pension from the SSF, whereas those with more than 15 years of contributions qualify for a lifetime pension. The lump-sum amount depends on the duration of contributions. For contributions made for less than 12 months, the lump sum is limited to the total employee contributions paid. For employees with 1 to 15 years of contributions, the lump sum includes total contributions from the employee, employer, and

government, plus accrued interest (Table 3.7). Pensioners with at least 15 years of contributions under Article 33 are entitled to a monthly lifetime pension equivalent to 20% of their average wage over the last five years. For each additional year of contributions beyond 15 years, the replacement rate increases by 1.5% of the former wage, up to a maximum replacement rate of 50%.

Figure 3.19. Reference wage period for pension benefits in Thailand and selected countries, 2022

Number of years used to compute the reference wage for pension benefits of private sector workers, 2022



Note: Colombia and the Philippines use the last ten and five years, respectively, to calculate the reference wage, but the full career is used if this results in a higher pension.

Source: Adapted from OECD (2022^[4]), *Pensions at a Glance Asia/Pacific 2022*, <https://doi.org/10.1787/2c555ff8-en>, Figure 1.13. Information on Thailand and the Philippines was added from OECD (2022^[4]).

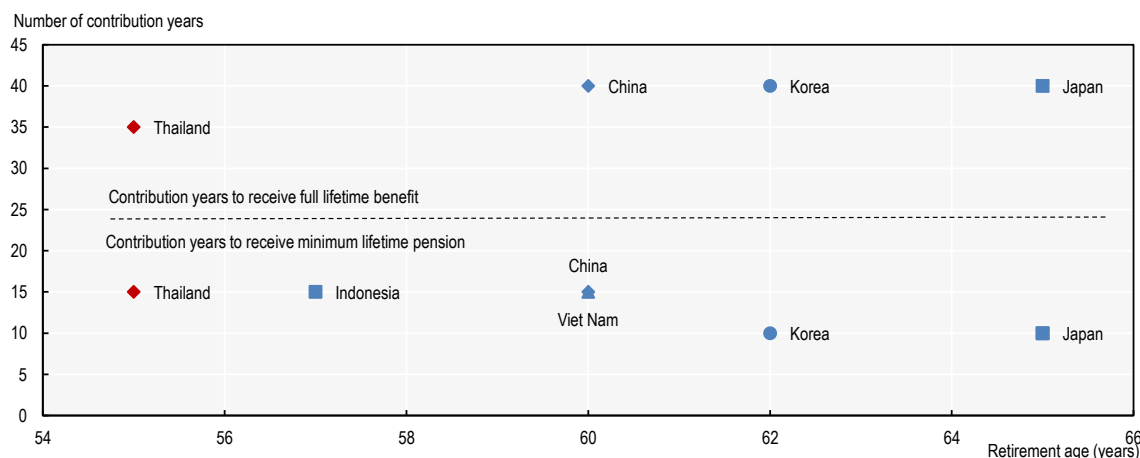
Table 3.7. Old-age lump sum and lifetime pension eligibility in Thailand (SSF Articles 33 and 39)

Length of contributions paid	Payout type and amount (lump sum or monthly)	Replacement rate (% of average wage over last five working years)
<1 year	Lump sum = employee's contributions	Lump sum of actual contributions made
1-15 years	Lump sum = employee's + employer's + government contributions + interest	Lump sum of actual contributions made + interest
15 years	20% of employee's average wage over past five years	20% of AW/month
>15 years	20% of employee's average wage over past five years + 1.5% for every additional year (ceiling at 50%)	16 years: 21.5% of AW/month 20 years: 27.5% of AW/month 30 years: 42.5% of AW/month 35 years: 50% of AW/month >35 years: 50% AW/month

Source: Social Security Office of Thailand.

International comparisons highlight significant variations in retirement age and required contribution years for lifetime pension eligibility, emphasising the importance of long-term contributions in securing adequate retirement benefits. In Thailand, private sector employees who have contributed to Article 33 under the SSF for at least 15 years are entitled to a monthly lifetime pension equivalent to 20% of their average wage over the last 60 months. The minimum contribution years required to receive a lifetime monthly pension vary, ranging from 10 years in Japan and Korea to 15 years in China, Indonesia, Thailand, and Viet Nam (Figure 3.20). The maximum replacement rates for lifetime pensions are attained after 40 years of contributions in China, Japan and Korea. In Thailand, a full lifetime pension benefit with a maximum 50% replacement rate is achieved after 35 years of contributions.

Figure 3.20. Retirement age and contribution years for lifetime pensions in Thailand and selected countries, 2022



Note: For Indonesia and Viet Nam, no information was found on the number of contribution years to receive a full pension benefit. In Viet Nam, the minimum contribution years to receive a lifetime pension are 15 years for women and 20 years for men.

Source: Social Security Office of Thailand; OECD (2022^[4]), *Pensions at a Glance Asia/Pacific 2022*, <https://doi.org/10.1787/2c555ff8-en>; OECD (2023^[15]), *Pensions at a Glance 2023: OECD and G20 Indicators*, <https://doi.org/10.1787/678055dd-en>.

Due to the low contribution ceiling, the replacement rates for high-income earners are significantly lower than those for low-income earners. Employees who began formal employment at age 20, earned THB 15 000 per month for the last five years of work, and contributed for 35 years can retire at 55 with a full pension benefit (50% replacement rate). However, the maximum replacement rate for higher-income earners is lower because contributions are capped at the contribution ceiling (Figure 3.21). An employee earning THB 22 500 per month can reach only a maximum replacement rate of 33.3%. Employees earning above THB 37 500 per month (approximately twice the AW) reach a maximum replacement rate of 20% after 35 contribution years. The low replacement rates for higher-income earners are a direct consequence of the low contribution ceiling (THB 15 000 monthly wage), which limits the amount of contributions and, consequently, the pension benefits available to high-income earners.

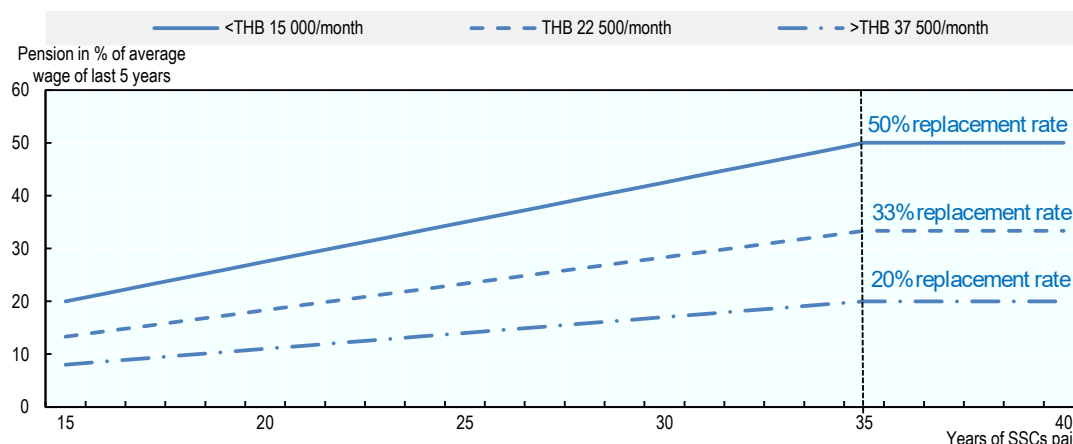
The low replacement rates undermine the adequacy goals of the pension system and discourage continued workforce participation. Under the current SSF pension schemes, only a small share of contributors will reach the maximum replacement rate of 50% in the future. Currently, most retirees in Thailand receive a replacement rate below 40% of their former wage, which is the recommended adequate pension income by International Labour Organization (ILO) Convention No. 102. High-income earners face particularly low replacement rates under the SSF pension scheme, as the low contribution ceiling constrains their benefits. While high-income earners may supplement their SSF pension through private savings, such as provident funds, this contradicts the adequacy ambition of the pension system. The low replacement rates also discourage continued formal employment in old age. Raising the pension contribution ceiling would be a first step in addressing these challenges.

Pension contributions for individuals voluntarily insured under SSF Article 39 are also low, resulting in even lower replacement rates. Contributions under Article 39 are calculated based on a fixed income level of THB 4 800 per month, which is below the current minimum wage and represents only 27% of the average wage. Consequently, individuals who fall under Article 39 in their final working years before retirement may receive pension benefits significantly lower than their actual income. This creates a disincentive for self-employment and business creation among older workers, as their potential contributions and benefits are capped much lower than their actual earnings (ILO et al., 2022^[13]). To

address this issue and enhance the adequacy of benefits for voluntary contributors, Thailand could consider increasing the contribution ceiling under Article 39.

Figure 3.21. Replacement rates for SSF pensions in Thailand (Article 33)

Pension income, as a % of average wage of the last five years, by number of contribution years and for different income levels



Note: The replacement rates (vertical axis) are shown for different lengths of contribution years (horizontal axis). If contributions were paid for less than 15 years, a lump-sum pension is paid based on actual contributions. For employees with more than 15 contribution years, a monthly pension is paid equivalent to 20% of the average wage over the past five years plus 1.5% per every additional contribution year. The pension is capped at 50% of the average former wage but calculated relative to the contribution ceiling at THB 15 000 monthly wage. The replacement rates for three different income scenarios are displayed (see legend), which result in different ceilings of the maximum replacement rates. Constant wage levels are assumed over the work life for the three income scenarios.

Source: Authors, based on information from the Social Security Office of Thailand.

Enhancing the sustainability and adequacy of SSF pension schemes

Thailand could implement comprehensive reforms to strengthen the SSF's financial sustainability while enhancing pension benefit adequacy. As outlined in the National Plan of Action on the Elderly (2023-2037), key objectives include increasing pension adequacy, developing a multi-tiered pension system, extending the retirement age, promoting continuous employment, and promoting savings for old age (Department of Older Persons, 2023^[12]). To achieve these goals, a series of reforms could be considered, including:

- Increase the SSC ceiling under Article 33.
- Raise the fixed contribution level under Article 39.
- Gradually raise the retirement age.
- Extend the reference wage period for calculating pension benefits.
- Index pension benefits to consumer prices.

Additionally, Thailand could enhance its multi-tier pension system by reducing fragmentation. The non-contributory OAA currently serves as a solid first-tier social pension scheme, but benefit levels need to be increased to meet adequacy standards (see Chapter 1). The SSF, as the largest pension fund in the country, could function as a mandatory second-tier scheme for all workers (excluding civil servants). Other savings funds should serve only a supplementary role. However, the coexistence and lack of portability of contributions and benefits between the SSF and the National Savings Fund currently disadvantage workers transitioning between formal and informal employment (see further discussion in Chapter 4). Addressing these issues will help create a more inclusive and sustainable pension system for Thailand's ageing population.

Box 3.2. Key recommendations on labour taxation in Thailand

Maintain incentives to contribute to the Social Security Fund

- Maintain the government matching contributions for lower-income workers and the low SSC rates to promote formalisation.

Strengthen the financing of the SSF

- Increase the SSC ceiling under Article 33 to increase revenues and progressivity.
- Remove the government contribution (2.75%) for the top quintile of private sector employees (Article 33) and replace it with an additional employer contribution.

Increase the PIT base

- Consider lowering the general PIT allowance of 50% of taxable income or THB 100 000 per year (e.g. to 10% of taxable income).
- Consider abolishing the single taxpayer allowance (THB 60 000).
- Reduce the ceiling of PIT deductions for savings and pension funds (currently THB 500 000), which favours high-income earners.
- Revise the PIT schedule and, in particular, the top brackets, based on the analysis of tax return microdata.
- Reduce tax incentives for incorporations of self-employed and manager-owners (reduce the income threshold for the top marginal PIT rate, increase the dividend withholding tax rate, increase the “minimum wage” that manager-owners of closely held corporations pay themselves).

Reduce disincentives to formalisation

- Replace the SWC cash benefit with an unconditional cash transfer with a phase-out for increasing income levels. Alternatively, income eligibility thresholds could be applied only at the time of initial benefit approval, without revoking benefits from existing recipients once their formal income exceeds the threshold.

Box 3.3. Measures to improve benefit adequacy and/or financial sustainability of the contributory pension scheme in Thailand

- Gradually increase the retirement age over time (sustainability).
- Increase the SSC ceiling to increase revenue and allow for higher replacement rates among medium-high-income earners (sustainability and adequacy).
- Index pension benefits to changes in consumer prices (adequacy).
- Consider longer periods than the last five years for the calculation of the reference wage (sustainability).

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Annex 3.A. Overview of Thailand's social insurance schemes

Annex Table 3.A.1. Main social insurance programmes in Thailand

Programme	Eligibility criteria	Contributions	Benefits	Number of contributors and beneficiaries	Budget
SSF Article 33 (compulsory)	Registered employees working in private companies with at least 20 employees	Employee: 5% of gross salary Employer: 5% of gross salary Government: 2.75% of gross salary Contributions start at THB 1 650 gross salary and are capped at THB 15 000 gross salary	Non-work-related injury/sickness; Maternity; Invalidity; Death; Child allowance; Old-age pension/lump sum; Unemployment benefit	Contributors (June 2024): 12 005 573 Beneficiaries (2023): 2 825 692 (excluding injury/sickness)	Contributions collected (2024): THB 236.3 billion Total budget (2024): THB 2 783 billion (including contributions, investment and reserve)
SSF Article 39 (voluntary)	Persons previously insured under Section 33 with at least 12 months of contributions paid and who leave employment for no more than 6 months	THB 432 per month (contribution rate of 9% applied to a contribution base of THB 4 800 per month), Government contribution: THB 120 per month (2.5%)	Non-work related injury/sickness; Maternity; Invalidity; Death; Child allowance; Old-age pension/lump sum	Contributors (June 2024): 1 740 293 Beneficiaries (2023): 560 342 (excluding injury/sickness).	
SSF Article 40	Voluntary contributory scheme for self-employed and informal workers aged between 16 and 65 years old not insured under Articles 33 or 39 or the NSF	Option 1: THB 70 / month Government: THB 30 / month Option 2: THB 100 / month Government: THB 50 / month. Option 3: THB 300 / month Government: THB 150 / month	Option 1: Loss-of-income compensation in case of injury, sickness or invalidity, funeral grant and death allowance Option 2: Same as under Option 1, plus old-age lump sum, plus interest based on the contribution period Option 3: Same as under Option 2, plus child allowance for each child up to 6 years old	Contributors (June 2024): 1 447 396 Beneficiaries (2023): 229 688	Contributions collected (2024): THB 3.6 billion Total budget (2024): THB 32.6 billion (including contributions, investment and reserve)
Workmen's Compensation Fund (WCF)	Employees insured under SSF Article 33 are automatically registered	Only employers contribute: 0.2-1.0% depending on risk classification of activities, up to	Occupational injury/illness	Insured persons (same as SSF Article 33)	Contributions collected (2019): THB 4 billion

Programme	Eligibility criteria	Contributions	Benefits	Number of contributors and beneficiaries	Budget
		annual salaries of THB 240 000			Total budget (2019): THB 6.2 billion (including contributions, investment and other revenues)
National Savings Fund (NSF)	Voluntary contributory scheme available to self-employed and informal workers who do not opt for SSF Article 40	THB 50 to THB 13 200 / year Government supplement: Up to THB 600 for individuals aged 15 to 30 (50%), THB 960 for individuals aged 31 to 50 (80%), and THB 1 200 for individuals aged 51 to 60 (100%) per year.	Pension	Contributors (2024): 2.6 million, or nearly 10% of informal workers (only a minority of members are likely to contribute actively) Beneficiaries (2020): 38 627	Contributions: Data not available
Civil Servant Medical Benefit Scheme (CSMBS)	Government officials and permanent employees, dependents (spouses, parents, and up to three children aged under 20), government retirees. Exclude local government officials and state enterprise officers.	Non-contributory, financed by general tax revenue (considered as part of public health insurance systems)	Healthcare	Beneficiaries (2024): 5 186 463 (including state enterprise officers covered by other schemes), representing 7.8% of all persons covered by public health insurance systems	Total expenditure (2020): THB 76.1 billion
Civil Servant Pension Scheme (CSPS)	Civil servants	Non-contributory, financed by general tax revenue	Pension	Active contributors (2019): 1.9 million, equivalent to 5% of the employed population Beneficiaries (2019): 700 000 (annuity pension)	Total expenditure (2020): THB 295.6 billion, including THB 225.6 billion for annuity pensions, THB 18.6 billion for lump-sum payments, THB 19.4 billion for GPF government contributions, and THB 32.1 billion for other pension expenditures
Government Pension Fund (GPF)	Mandatory for civil servants (since 1997)	Civil servants: 3% to 15% of gross salary (contributions above 3% are voluntary) Government: 5% of employee's gross salary	Pension	Active contributors (2019): 1.9 million civil servants, equivalent to 5% of the employed population	Civil servants' contributions: No data available Government's contributions (2020): THB 19.4 billion

Source: Data on SSF beneficiaries and budget provided by SSO, *Social Security Fund (SSF) 's information leaflet*; SSO's *information leaflet on the Workmen's Compensation Fund (WCF)*; MoPH's presentation on *Thailand's Public Health Insurance*; ILO et al. (ILO et al., 2022^[13]), *Thailand Social Protection Diagnostic Review*; World Bank (2021^[17]), *Towards Social Protection 4.0: An Assessment of Thailand's Social Protection and Labor Market Systems*; ILO et al. (2022^[13]), *Thailand Social Protection Diagnostic Review: Review of the Pension System in Thailand*.

Annex 3.B. The Taxing Wages model

Annex Box 3.B.1. Methodology of the Taxing Wages model

The Taxing Wages model has been developed to assess countries' labour tax and benefit systems for different types of taxpayers and their families. The model relies on several assumptions and terminologies, which are described below.

Main assumptions

- The household is assumed to have no income source other than from employment and cash benefits. The annual income from employment is assumed to be equal to a given fraction of the average gross wage earnings of these workers.
- The taxpayer is assumed to work full-time. Taxpayers with wages below the average wage proxy the situation of a part-time worker.
- Any children in the household are assumed to be aged between 6 and 11 inclusive.
- Compulsory SSC paid to the general government are treated as tax revenue.

Characteristics of the four types of taxpayers

- Single person with no children
- Single parent with two children (aged 6-11 years)
- One-earner married couple with no children
- One-earner married couple with two children (aged 6-11 years)

Terminology

- **Labour costs** is the sum of gross wage earnings, employers' SSC and payroll taxes.
- **Net personal average tax rate (tax burden)** is the sum of PIT and employee SSC, less cash transfers expressed as a percentage of gross wage earnings.
- **Tax wedge** is the sum of PIT, employee and employer SSC, less cash transfers expressed as a percentage of labour costs.
- **Marginal tax rate** is the share of an increase in gross earnings or total labour costs that is paid in these levies.

Calculations

- **Personal income taxes** are calculated in two steps for all four types of taxpayers: First, the tax allowances applicable to the taxpayer, given his/her family characteristics and income level, are determined. Second, the schedule of tax rates is applied, and the resulting tax liability is reduced by any relevant tax credits.
- **SSC** are calculated as contributions paid by employees and employers to general government or to social security funds and do not include government contributions (as in Thailand).
- **Marginal tax rates** are calculated by considering the impact of a small increase in gross earnings (THB 1) on PIT, SSC and cash benefits.

Source: OECD (2024^[9]), "Annex A. Methodology and limitations" in *Taxing Wages 2024: Tax and Gender through the Lens of the Second Earner*, <https://doi.org/10.1787/dbcbac85-en>.

Annex Box 3.B.2. Parameters of the Taxing Wages model for Thailand

The Taxing Wages model for Thailand is based on an average private sector wage of THB 17 476 per month. This average wage figure is calculated based on wage data reported to the SSO in May 2024 and only covers formal private sector employees insured under Article 33 of the Social Security Act. The median wage for a private sector worker in Thailand is lower than the average wage, at about THB 13 000 per month or 74% of the average wage. This is due to the wage distribution, which is skewed to the left in Thailand, with more workers accumulated around lower wages in the wage distribution. The analysis only includes formal private sector workers registered under the SSO, as average wage data for self-employed and informal workers are not available. The situation of pensioners is assessed in the next section of this chapter.

Average wages differ across the peer countries in East Asia and the Pacific. Expressed in US dollars (USD) and purchasing power parity (PPP), annual average wages range from USD 7 289 in Indonesia to USD 80 414 in Singapore. The annual average wage in OECD countries (USD 46 520, PPP) is more than three times the annual average wage in Thailand (USD 14 452, PPP). As average wages and wage distributions vary across countries, comparing Thailand's Taxing Wages model to other OECD countries is not recommended.

To apply the Taxing Wages model to Thailand, the PIT and SSC schemes and cash benefits are included as shown in Annex Table 3.B.1. For the PIT, the general tax allowance, the personal allowance, the spouse allowance, the child allowance, and the SSC deduction are modelled. The progressive PIT rate schedule is applied, ranging from 5% to 35%, as defined in the Thai Tax Code. For SSC, the employee's and employer's SSC are modelled, taking into account the wage floor and wage ceiling. In addition, employers' contributions to the Workers' Compensation Fund are included. For cash benefits, only cash transfers to low-income households via the SWC are included in the model.

Annex Table 3.B.1. Income tax and SSC regulations included in the Taxing Wages model for Thailand

PIT allowances		SSC regulations		Cash benefits	
General tax allowance	50% of taxable income or THB 100 000, whichever is lower	Employee to SFF	5%	State Welfare Card (monthly cash transfer):	
Single taxpayer allowance	THB 60 000	Employer to SFF	5%	Household with incomes <THB 30 000 per year	THB 300 per month
Spouse allowance	THB 60 000	Floor (SFF)	THB 1 650 monthly salary	Household with incomes THB 30 000-100 000 per year	THB 200 per month
Child allowance	THB 30 000 per child up to three children + THB 30 000 per child born after 2018	Ceiling (SFF)	THB 15 000 monthly salary	*Child Support Grant for poor households with children	THB 800 per month
Deduction of SSC	Actual amount up to THB 9 000	Employer to Workers' Compensation Fund	0.22% (average rate in 2023)		
PIT rates	5-35% Bottom threshold: THB 12 500 monthly salary Top threshold: THB 416 666 monthly salary	Ceiling (Workers' Compensation Fund)	THB 240 000 annual salary		
*Deduction for contributions to savings and pension funds	Up to THB 500 000 per year				

Note: Entries with a "*" are not included in the baseline model but in extended models.

Source: OECD, information provided by the Thai Revenue Department and the Social Security Office of Thailand (2024).

Notes

- ¹ The calculations are based on wage distribution data for insured private sector employees in 2022, as published by the SSO (Social Security Office of Thailand and Ministry of Labour, 2022^[14]).
- ² Based on the Taxing Wages model assumptions, all private sector employees below the SWC income threshold receive the SWC benefits. This is not a fully realistic assumption as the SWC suffers from targeting errors (see Chapter 1).
- ³ The basic Taxing Wages model considers children aged between 6-11 years and therefore does not include the Child Support Grant. In addition, all families with children aged 3 to 17 years benefit from additional in-kind benefits such as free education and free meals at school (ILO et al., 2022^[18]).

4 Promoting formalisation in Thailand

This chapter discusses policy options to enhance the coverage of social insurance among informal sector workers in Thailand. First, it outlines the main characteristics of informal workers in Thailand. It then analyses existing social insurance schemes targeted at the self-employed. Finally, the chapter proposes the design of a presumptive tax regime for micro-businesses that would allow the self-employed to access social insurance.

Informality is widespread in Thailand, particularly among the self-employed

Despite showing a declining trend, informality in Thailand is widespread, affecting more than half of the workforce. Although informality has declined by 10 percentage points over the last decade, it remains high (OECD, 2023^[1]). Estimates from the Informal Employment Survey (IES) indicate that approximately 21 million workers, or 52% of Thailand's total labour force, were in informal employment in 2023 with women being slightly less exposed than men (50% vs 53%) (see Box 4.1 for a description of the definition used).

Box 4.1. Definition of informal employment

The Informal Employment Survey (IES) data offers a comprehensive national overview of informal employment in Thailand. In the survey, workers are classified as formal if they meet the following criteria:

- Employers, self-employed individuals, unpaid family workers, or members of co-operatives who are members of the social security scheme under Articles 33, 39, or 40. These workers may also be protected under specific labour laws, such as the Private School Act, the Homeworkers Protection Act, regulations under the Labour Protection Act, or the Protection of Labour for agricultural workers.
- Government employees – such as civil servants, temporary staff, and foreign organisation employees – who receive paid sick leave and are covered by the social security system.
- Private sector employees who receive protections under specific labour laws, are entitled to paid leave and social security benefits, or have maintained continuous employment with the same employer for at least three months.

Informal workers are workers not covered by social security schemes or specific labour laws. Private employees are considered informal if they lack paid leave entitlements, are excluded from social security schemes, do not have stable employment, and are not protected by labour regulations.

The IES definition of formal employment is not fully aligned with the definition applied by the International Labour Organization (ILO), and even if a worker is considered formal according to the above criteria, their social protection coverage might be limited. For instance, workers under Article 40 contribute to social security, but their entitlements are limited compared to workers insured under Article 33. Article 39 members are classified as formal because they contribute to social security but are currently not working in the formal sector (see Chapter 3). Similarly, private sector employees with no social security but with continuous employment with the same employer are classified as formal workers, which departs from the ILO definition of formal employment (ILO, 2003^[2]).

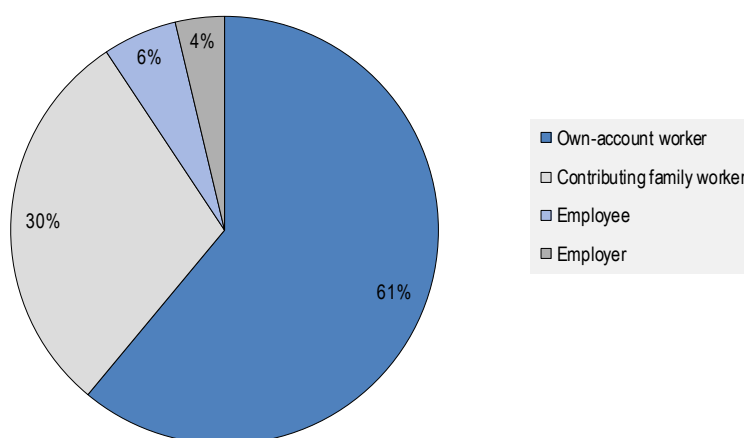
Source: OECD based on IES.

Informality is more common among workers with lower levels of education and those working in smaller-sized companies. According to IES data, informality is more common among workers with lower levels of education, those employed in the agricultural sector – which accounts for over half of the country's informal workforce – and those working in micro and small enterprises. In fact, 85% of informal workers are employed in businesses with fewer than ten employees, compared to just 32% of formal workers. In urban areas, the wholesale and retail trade sector, which includes a large number of street vendors, serves as a major source of informal employment (Poonsab, Vanek and Carré, 2019^[3]). The coronavirus (COVID19) pandemic confirmed the vulnerability of workers in the informal sector, as many workers were excluded from pandemic relief measures (Komin et al., 2024^[5]).

Self-employed workers (own-account workers and employers) are disproportionately affected by informality, making up the majority of informal employment in Thailand. They account for 65% of all informal workers – 73% of men and 56% of women. Contributing family workers make up another third, while employees represent only 6% of the informal workforce (Figure 4.1). Women in informal employment are significantly more likely than men to be contributing family workers (40% vs. 21%) and significantly less likely to be own-account workers (54% vs. 68%).

Figure 4.1. Employment status of informal workers in Thailand, 2023

Distribution of informal workers by employment status



Note: Own-account workers are self-employed workers without employees.
Source: IES.

Informality among workers is mainly concentrated in lower-income groups. IES data show that 74% of informal employees are concentrated in the lowest wage quintile. The average monthly wage of informal workers is about THB 7 700 (Thai baht), which is less than half the wage of formal employees. Among own-account workers, informal workers earn approximately 1.5 times less than their formal counterparts, as reflected in the higher ratio of individual labour earnings between the two groups. However, there is also a significant proportion of informal workers (about 20%) who earn more than 150% of the median wage (OECD, 2024^[6]).

Social evasion reduces the social protection coverage of workers

Non-compliance with social security contributions (SSC) is widespread, even among registered businesses. Informality is also prevalent within registered businesses, with nearly 5 million individuals working informally, which represents about one-quarter of all informal workers. According to IES data, 55% of these informal workers in registered businesses are own-account workers, while 30% are contributing family workers. This highlights the need for stronger enforcement measures to enhance social protection coverage, even within the formal sector.

Social evasion poses a significant barrier to Thailand's social protection system and its financial sustainability, particularly in terms of contributions to the Social Security Fund (SSF). For private sector employees, social evasion occurs if employers do not register their employees or do not pay the full amount of required SSC. Under the Thai Social Security Act, employers are required to register new employees within 30 days of their start date. Employers' compliance could be enhanced through a combination of soft measures, such as sending reminders, and hard measures, including penalties for those who do not register their employees.

Envelope wages – a practice where employers pay part of workers' wages in cash – represent another form of social evasion. By under-reporting wages, both employers and employees contribute

less to the SSF, which directly weakens its financial base. For employees, this arrangement may result in higher immediate net earnings due to reduced contributions, while still receiving basic insurance benefits as they are registered with a lower wage. The employer also benefits from lower contributions for their employees. However, the reduced contributions ultimately lead to lower benefits for employees.

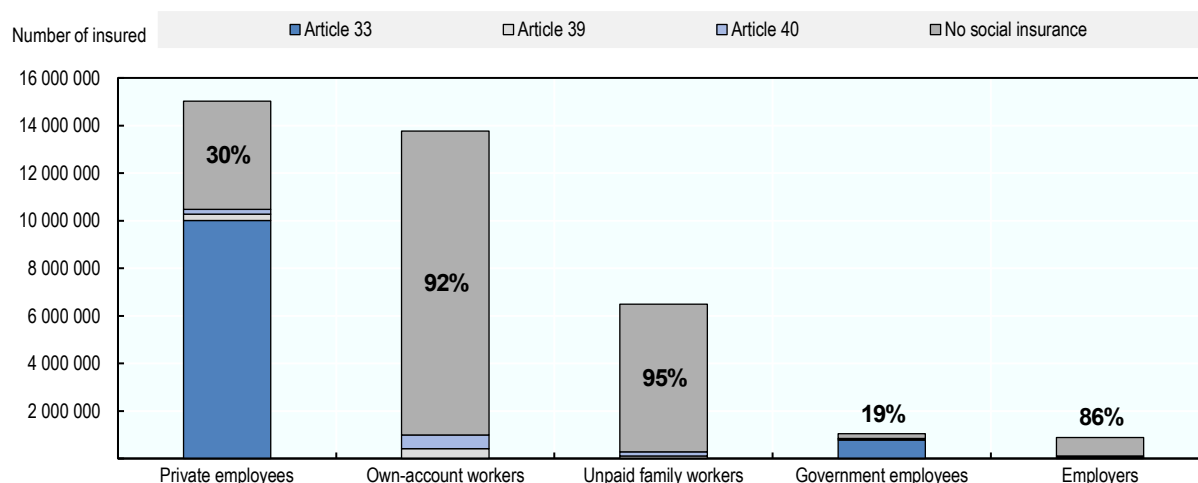
Informal workers can contribute to voluntary saving schemes, but participation is limited

Article 40 of Thailand's SSF aims to extend social insurance coverage to individuals outside the formal sector. The scheme targets self-employed workers but is optional, and workers can choose from three monthly contribution levels: THB 70, THB 100, and THB 300. Each contribution tier provides a different level of benefits and coverage of risks (Table 4.A.1 in 0). Specifically, Option 1 (THB 70 per month) provides sickness, disability and survivors' benefits; Option 2 (THB 100 per month) adds a lump-sum old-age benefit to the benefits under Option 1; Option 3 (THB 300 per month) further expands the benefits of Option 2 by including a child allowance. Healthcare is not included in any of the Article 40 options because all individuals benefit from the Universal Health Care scheme. Informal workers, who often lack experience with formal registration, can apply through a variety of channels, including the Social Security Offices (SSO), the SSO hotline, different online and mobile applications, the Bank for Agriculture and Agricultural Cooperatives, and Seven-Eleven stores. Similarly, contributions can be made conveniently through various banks, service units and mobile payment platforms. This multi-channel approach is designed to reach a wide range of informal workers with diverse backgrounds and habits, promoting broader inclusion.

Social security coverage among the self-employed remains low. While employees in the private sector have a relatively high level of social insurance coverage, participation in the voluntary schemes under Articles 39 and 40 is limited (see Table 3.A.1 in Annex 3.A.). Only 14% of employers, 8% of own-account workers, and 5% of unpaid family workers are members of the SSF under Articles 39 and 40 (Figure 4.2). These figures reveal critical gaps in social protection coverage and underline the urgent need for targeted measures to address informality among vulnerable groups, particularly the self-employed and contributing family workers.

Figure 4.2. Social insurance by employment status in Thailand, 2023

Social insurance coverage under Articles 33, 39 and 40 by employment status, 2023



Note: Private sector and government employees are eligible to contribute under Article 33, whereas own-account workers, employers and unpaid family workers are eligible to contribute under Article 40, and possibly Article 39, in cases of previous participation in Article 33 (see Table 3.A.1 in Annex 3.A for a description of the different schemes). Some workers may benefit from other social protection programmes, such as a scheme for domestic workers or private school teachers, which are not considered here.

Source: IES, 2023.

Low and irregular contributions result in very low benefits under Article 40. Estimates from the ILO indicate that even under optimistic scenarios, a long-term contributor to Article 40 would receive a monthly old-age allowance of only THB 203-229 (approximately 7% of the 2023 poverty line) under Option 2 and THB 608-688 (22% of the poverty line) under Option 3 (ILO et al., 2022^[7]). In addition, participation in Option 3 remains limited, with most members opting for the first two options. Furthermore, due to the high prevalence of irregular contributions, members who do not contribute regularly may be entitled to significantly lower pensions than those estimated in this study, or they may not qualify for any benefits at all.

Participation in Article 40 saw a temporary spike during the COVID-19 pandemic, largely due to emergency cash transfers. Article 40 participation increased sharply in 2021 due to the THB 5 000 emergency cash transfer offered to participants in 29 of Thailand's 77 provinces. In addition, Article 40 contribution rates were reduced by 40% from July 2021 to July 2022. However, when the temporary measures ended, the number of contributors quickly returned to pre-pandemic levels. After one year, only 13% of those who had joined Article 40 during the pandemic remained active contributors. In contrast, the retention rate for those who joined the scheme before 2021, when no incentives were available, was 43% (Olken et al., 2024^[8]). This highlights the challenges of maintaining long-term engagement in voluntary social protection schemes, particularly when short-term incentives are no longer available.

Limited participation in the standard Article 40 scheme reflects the low perceived value of the benefits and a possible lack of trust in government institutions. Research suggests the main barrier to Article 40 participation is the low attractiveness of the scheme's benefits (Olken et al., 2024^[8]). The sharp decline in the number of active contributors after the 2021 increase suggests that many workers did not find the long-term benefits sufficient to justify continuing to contribute. In addition, Options 2 and 3 in Article 40, which include retirement savings, show low take-up. This suggests that workers either prioritise immediate benefits over long-term social protection or are reluctant to entrust their savings to the government for an extended period.

The perception that Article 40 does not provide certain types of benefits, combined with limited awareness of entitlements, has contributed to reduced participation in the scheme. For example, a significant proportion of informal workers interviewed in the study by Komin et al. (2024^[5]) expressed dissatisfaction with the lack of maternity income compensation, a benefit only available under Article 33 (see Table 3.A.1 in Annex 3.A). Many self-employed workers also lack a clear understanding of how the system works. This knowledge gap often results in contributors not claiming the benefits they are entitled to. Without a clear understanding of the benefits and claims process, informal workers may view contributions as a one-sided cost, which can lead some to stop making payments and withdraw from the programme. In addition, delays in accessing benefits, particularly sickness and injury income compensation, have further reduced the scheme's effectiveness. Members have also reported a lack of information about their contribution history and how it affects their eligibility for benefits, particularly in cases where payments have been suspended over time. This lack of transparency undermines confidence in the scheme and discourages long-term participation among informal workers.

The coexistence of the National Savings Fund (NSF) and the SSF creates competition and confusion among members, which may undermine confidence and reduce participation. The NSF is a voluntary supplementary savings scheme designed to support retirement savings for individuals not covered by mandatory social security schemes. While the NSF plays a critical role in filling a gap in Thailand's social protection system by providing retirement savings for informal workers, its overlap with the SSF has led to misunderstandings about eligibility. In practice, individuals enrolled in Article 40 (Options 2 and 3) are required to formally withdraw from the scheme before they can contribute to the NSF. Conversely, as Option 1 of Article 40 does not provide for pension benefits, members may enrol in the NSF while maintaining their membership under Article 40 Option 1. In contrast, NSF members transitioning to Article 40 need only stop contributing to the NSF and can continue to receive NSF benefits in addition to Article 40 pension benefits (provided they participate in Options 2 or 3) when they retire.

Komin et al. (2024^[5]) emphasise the need for clearer communication and better co-ordination between the two systems to ensure that participants fully understand their rights and obligations. This would help build confidence and trust in the system and encourage broader enrolment.

Improved communication is essential to increase participation and retention of workers under Article 40 (Box 4.2). Tailored campaigns and information channels could be developed to better reach the target group (e.g. street vendors). Broader information-sharing efforts could involve workers' organisations, which are well placed to engage with informal workers and ensure that contributors receive clear information on their contributions and entitlements. Simple mechanisms, such as SMS (short message service) alerts and notifications, could be used to regularly inform members of their contribution status and the benefits to which they are entitled. In addition to explaining entitlements to existing contributors and simplifying the claims process, proactive engagement with non-members will be essential to expand coverage among the target group.

Box 4.2. Using behavioural insights to increase voluntary retirement savings

Behavioural science evidence has been used by policymakers around the world to design better programmes and improve implementation, providing useful lessons on how to increase participation and contribution rates for pension and savings schemes. Behavioural science draws on insights from psychology, cognitive and neuroscience, and organisational and group behaviour to better understand human behaviour. While traditional economic models of human decision making suggest that people seamlessly consider all their options and choose to do what is best for them, they often do not predict what actually happens in complex decisions such as retirement savings.

Several successful examples show how taking cognitive biases into account in policy design can facilitate the adaptation of schemes at low cost, provided that these interventions are rigorously tested and adapted to the specific country and policy context:

- In Kenya, informal workers' contributions to a voluntary savings scheme doubled after participants were given a gold-coloured coin inscribed with numbers on it to help them track their weekly deposits. The tangibility of the coin helped to remind people to save and produced better results than a financial matching scheme.
- In Bolivia, Peru and the Philippines, targeted text message reminders helped low-income bank clients who had recently signed up for commitment savings accounts to meet their savings goals. Messages that mentioned both savings goals and financial incentives were particularly effective.

Source: OECD (2018^[9]), *Multi-dimensional Review of Thailand: Volume 1. Initial Assessment*, <https://doi.org/10.1787/9789264293311-en>.

Extending social insurance coverage to all workers

Low participation in voluntary saving schemes highlights the challenges of extending social protection to informal workers. Thailand's struggle to expand social insurance coverage for the self-employed, with Article 40 and the NSF, highlights the limitations of using voluntary savings schemes. These limitations largely stem from an excessive focus on the short-term (myopia) as well as a lack of trust in the government regarding the management of long-term savings. This mirrors international experiences, where voluntary schemes often struggle to effectively broaden coverage and engage informal workers (ILO et al., 2022^[7]).

A tiered approach could be considered, requiring larger micro-businesses and their workers to participate in a simplified presumptive tax regime (PTR). While voluntary savings schemes often face challenges in expanding coverage, it is equally unlikely that mandatory contributions will be effectively enforced among the low-income self-employed. Given the challenges of enforcing mandatory participation among all informal workers, introducing a tiered system could be envisaged. Larger micro-enterprises and their workers could be required to participate in a simplified PTR that integrates social insurance coverage and offers more attractive benefits than those available under Article 40 (as discussed in the next section). Article 40 could remain a voluntary savings scheme for low-income self-employed workers.

A review of the legislated exemptions from Article 33 contributions is essential to address coverage gaps. The current mandatory scheme (Article 33) for private sector employees excludes certain categories of workers, such as domestic workers and seasonal employees, despite the existence of clear employer-employee relationships. These legal exclusions contribute to gaps in social security coverage, as the workers concerned are limited to participating in social security under Article 40, which provides a much lower level of social protection. From an employer's perspective, these exemptions create incentives to use non-standard contracts to minimise compulsory contributions and, therefore, the costs for employers to hire workers. This undermines both the financing and the inclusiveness of the system. To mitigate these risks, the definition of exempt categories (e.g. seasonal and temporary workers) should be clarified with precise criteria to prevent misuse and abuse. Legal loopholes that allow businesses to avoid or evade social security obligations should be closed (see Box 4.3 for examples from other countries). Moreover, the evolving nature of work – in particular, the rise of digital platform workers in the gig economy – underscores the need for a comprehensive review and revision of the legislation to reflect modern employment relationships, in line with ILO recommendations (ILO et al., 2022^[7]).

Box 4.3. Extending contributory schemes to self-employed workers

Strategies for extending contributory schemes to the self-employed and informal workers can be divided into three groups (Table 4.1). First, self-employed and informal workers can be included in existing compulsory social security schemes. An integrated social security system for salaried and self-employed workers offers the advantage of enhancing worker mobility while minimising administrative costs and reducing system fragmentation. The starting point is often to include easy-to-reach workers with clear employer-employee relationships by extending existing schemes. Governments often provide targeted subsidies to improve social security coverage for low-income workers. Second, voluntary contribution schemes can serve as an entry point for informal workers to join the social security system. However, there is scarce evidence of successful examples of voluntary schemes. Third, specific contribution schemes can be designed for particular sectors or occupations to extend coverage to particular informal groups of workers. While additional sectoral or occupational schemes can contribute to extending coverage, they can undermine the universal scheme and lead to fragmentation.

Table 4.1. Options and trade-offs in designing contributory schemes for informal workers

	Mandatory contribution schemes	Voluntary contribution schemes	Sector- or occupation-specific contributory schemes
Pros	- Allow for mobility of workers between different forms of employment - Allow for risk-pooling and redistribution - More efficiency of the system and no fragmentation	- Provide basic insurance to low-income informal workers and self-employed - Can be a supplement for pension savings	- Lower contribution rates than under the standard scheme - Adapted to specific needs and limited contributory capacity
Cons	Affordability for low-income workers	- Low take-up and high drop-out rates - Unattractive due to low benefit levels	- Increase fragmentation and inequities - Duplication of similar schemes - Often do not allow for benefit portability across schemes
Target group	Easy-to-reach informal workers, workers in employer-employee-like relationships, domestic workers, seasonal workers, platform workers, etc.	Self-employed, dependents, hard-to-reach informal workers	Hard-to-cover groups of workers in a specific sector or profession (e.g. farmers, taxi drivers, construction workers)
Examples	- Extension to domestic workers: Philippines' Domestic Workers Act 2013, Malaysia 2017 - Extension to seasonal workers: Viet Nam reduced the minimum employment duration to be eligible for social security protection from three months to one month in 2014 - Extension to self-employed: Indonesia extended mandatory contributions for old-age and work accident protection in 2015	- Article 40 of the SSF and NSF in Thailand - Voluntary National Social Security Fund in Lao People's Democratic Republic - Voluntary AlkanSSSy scheme in the Philippines with daily contributions - Voluntary pension scheme for self-employed in Viet Nam	- Peasants' Social Insurance in Ecuador - Mandatory contributory scheme for taxi drivers in Malaysia - Special schemes for construction workers in India and the People's Republic of China - Special scheme for gig workers with the platform company Gojek in Indonesia

Source: OECD based on Nguyen and da Cunha (2019^[10]), *Extension of Social Security to Workers in Informal Employment in the ASEAN Region*, <https://www.ilo.org/publications/extension-social-protection-workers-informal-employment-asean-region>; Ghorpade, Restrepo and Castellanos (2024^[11]), *Social Protection and Labor Market Policies for the Informally Employed: A Review of Evidence from Low-and Middle-Income Countries*, <http://documents.worldbank.org/curated/en/099032024211014718>.

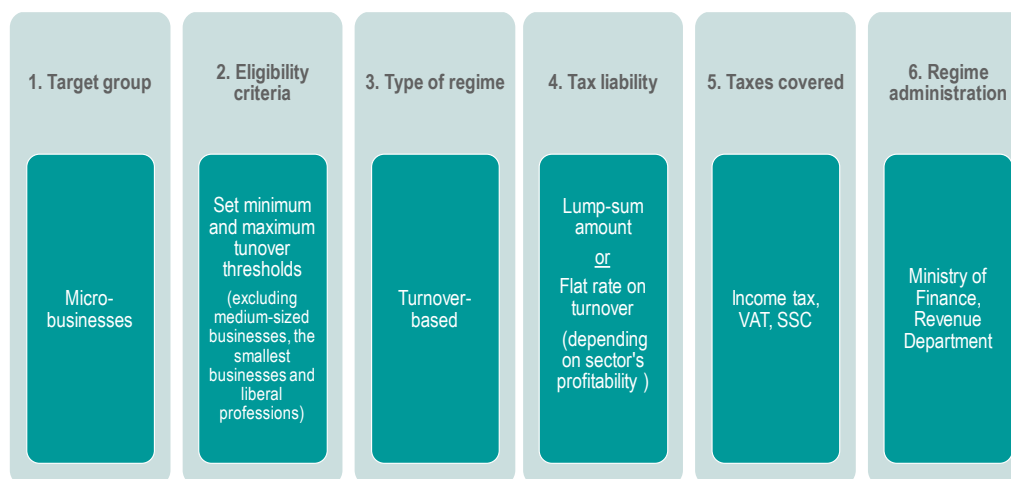
Designing a presumptive tax regime to enhance coverage from contributory schemes

Introducing a PTR in Thailand could simplify taxation of small businesses and extend social insurance coverage to the self-employed and workers in micro-enterprises. PTRs are designed to simplify tax compliance for micro and small enterprises. By replacing complex income-based tax systems with simplified mechanisms, such as lump-sum taxes or turnover-based assessments, PTRs aim to reduce administrative burdens for tax authorities and compliance costs for taxpayers (Mas-Montserrat et al., 2023^[12]). Implementing a PTR in Thailand could contribute to bringing informal businesses into the tax system.

The main design features of the proposed PTR for Thailand are found in Figure 4.3. Designed as a system that includes SSC as part of the tax liability, the PTR could play a key role in expanding social insurance coverage to the self-employed and employees in micro-businesses. To encourage firms to pay tax under the PTR, the regime could offer social security benefits that are more attractive than those currently provided under Article 40. The latter scheme would remain accessible only to micro-entrepreneurs with incomes below the minimum eligibility threshold of the PTR.

This section draws significantly on a list of 50 best practices in the design of PTRs developed by Mas-Montserrat et al. (2023^[12]) and international experiences (Mas-Montserrat, Colin and Brys, 2024^[13]).

Figure 4.3. Main design features of a potential presumptive tax regime for Thailand



Note: According to Thailand's Office of Small and Medium Enterprises Promotion, micro-businesses are defined as businesses with a turnover not exceeding THB 1.8 million and with no more than five employees.

Source: Framework adapted from Mas-Montserrat et al. (2023^[12]), "The design of presumptive tax regimes", <https://doi.org/10.1787/141239bb-en>.

The PTR could target self-employed workers and unincorporated micro-businesses

A PTR in Thailand could target micro-businesses and self-employed workers, i.e. small businesses facing challenges in maintaining complete and up-to-date books. Highly profitable sectors and businesses with the capacity to comply with standard tax rules should be excluded from the PTR. In particular, liberal professions, such as lawyers, doctors, and information technology consultants, are traditionally ineligible for a PTR, as they typically have higher earnings and education, making it easier for them to comply with the standard tax regime. The specific level of SSC for self-employed professionals regime remains a topic for further analysis. The exclusion list should be based on clear criteria, including profitability, ability to comply with complex requirements, clarity for businesses, and ease of enforcement for tax authorities. It is recommended that incorporated businesses, which are subject to the corporate income tax (CIT), remain outside the scope of Thailand's PTR to prevent tax avoidance and maintain the integrity of the standard tax regime.

Eligibility criteria are essential to ensure that non-targeted businesses are excluded

Eligibility criteria must be designed to exclude non-targeted businesses from access to the PTR.

An important and common criterion is a turnover threshold above which businesses should not be eligible for the regime. This threshold can vary across sectors to reflect differences in profitability and to ensure that only businesses with limited financial capacity benefit from the simplified tax regime (Thuronyi, 2004^[14]).

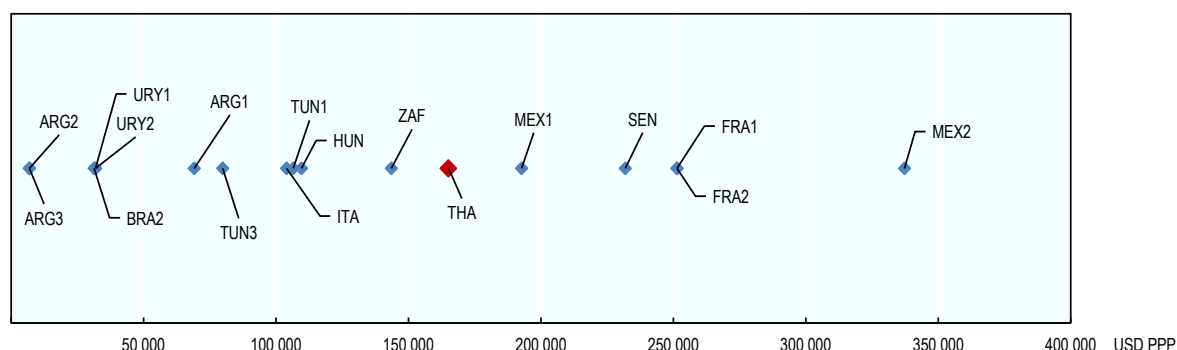
Setting the threshold too high could undermine the standard tax system by attracting too many businesses into the PTR. Setting an appropriate turnover threshold helps prevent larger businesses from opting into the PTR, where they would benefit from lower tax rates even though they are able to comply with the standard tax system. The value added tax (VAT) registration threshold is a natural maximum turnover eligibility threshold for the PTR, which coincides with the threshold below which businesses are defined as micro-businesses in Thailand, according to the Office of Small and Medium Enterprises

Promotion. Finally, the threshold could be indexed to inflation or revised in case of persistent, significant inflation to avoid eligible micro-businesses becoming ineligible for the PTR over time.

Setting an appropriate maximum turnover threshold is crucial to strike the right balance between inclusiveness and transition incentives. The eligibility threshold for the PTR should not be set too high, as this would allow businesses with sufficient financial and administrative capacity to remain under the PTR rather than transition to the standard tax system. Best practice suggests aligning the PTR threshold with the VAT registration threshold (Figure 4.4.). However, the current VAT registration threshold is relatively high, at THB 1.8 million (about USD 165 000 [US dollars], PPP [purchasing power parity]). Thailand could consider lowering its VAT registration threshold and aligning the PTR eligibility criteria to ensure a more coherent transition path.

Figure 4.4. Proposed maximum eligibility threshold for a PTR in Thailand and selected countries

Maximum turnover for unincorporated businesses to be eligible for a PTR in USD PPP



Note: Thailand's VAT registration threshold, currently at THB 1.8 million (approximately USD 165 000, PPP), is included as a potential threshold. Source: Adapted from Mas-Montserrat, Colin and Brys (2024^[13]), "The design of presumptive tax regimes in selected countries", <https://doi.org/10.1787/58b6103c-en>.

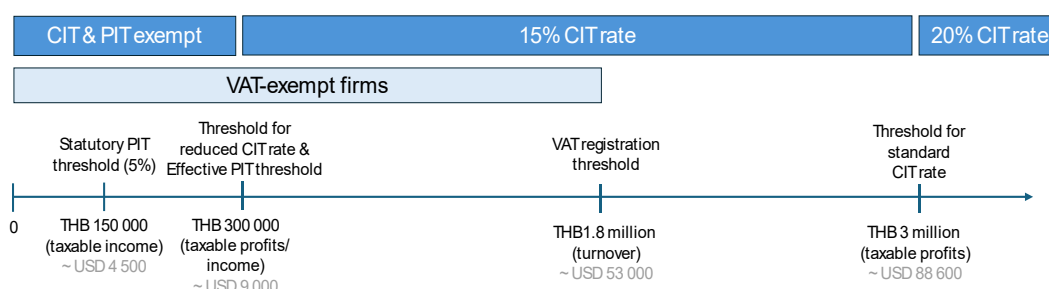
Additional criteria can reinforce targeting but should remain simple to enforce. In addition to turnover thresholds, additional eligibility conditions can include limitations on the physical characteristics of the business, constraints on the number of economic activities, or conditions related to personal assets. These additional criteria may help distinguish micro-businesses and self-employed workers from larger businesses. The balance between simplicity and enforcement capacity is key to an effective eligibility framework. While additional criteria can improve targeting, they should not impose excessive administrative burdens on taxpayers or the tax administration.

A minimum threshold in the PTR would exclude the smallest businesses, which would reduce compliance burdens for both taxpayers and tax authorities. Among 31 African countries with a PTR, 13 countries set a minimum threshold (Hoy et al., 2024^[15]). Whether Thailand should adopt a minimum threshold requires a thorough analysis of several key factors, including the distribution of micro-businesses and the capacity of the tax administration.

The minimum threshold could be set close to the personal income tax (PIT) and CIT exemption thresholds. Setting a minimum PTR threshold lower than the PIT exemption threshold may be ineffective in attracting businesses, as unincorporated micro-businesses are likely to opt for the PIT if this choice results in zero tax liability. As the PIT is levied on taxable personal income and the PTR levies a tax on gross receipts, their tax bases are distinct, and both taxes cannot be compared directly. The difference between taxable income and turnover will increase with tax-deductible business expenses. The distribution of businesses and their business expenses may impact the minimum threshold that could be set. It should

also be noted that while the statutory PIT exemption threshold is at THB 150 000 taxable income, the effective PIT exemption threshold, as indicated in Chapter 3, is around THB 300 000 taxable income, which coincides with the CIT exemption threshold defined under the small and medium-sized enterprise (SME) regime (Figure 4.5). An alternative could involve setting the minimum threshold at THB 300 000. However, survey data on the distribution of informal businesses by turnover, alongside administrative data from CIT returns, would be essential to determine the most adequate threshold. Article 40 could then remain available for micro-entrepreneurs with turnover below the minimum PTR threshold.

Figure 4.5. PIT, CIT own VAT thresholds in Thailand's current tax system



Note: The thresholds are shown in Thai bahts and in USD using end of 2024 nominal exchange rates.

Source: Authors' own elaboration.

The PTR would be available exclusively to small unincorporated businesses. Under the current system, business income is taxed under the PIT for unincorporated businesses or the CIT for incorporated businesses. The PTR would be designed specifically for unincorporated businesses below the VAT registration threshold, and the tax would serve as a substitute for the PIT and the VAT. Social insurance contributions should be mandatory for all self-employed individuals with a turnover exceeding the minimum threshold. Unincorporated businesses with turnover above the minimum threshold could opt to be taxed under either the PTR or PIT. Incorporated businesses, by contrast, would remain subject to the CIT and its progressive tax rate structure: profits below THB 300 000 are zero-rated, profits between THB 300 000 and THB 3 million are taxed at a 15% statutory tax rate, and profits exceeding THB 3 million are taxed at a rate of 20%. Additionally, businesses that do not file tax returns, keep books, or submit required documents are currently taxed at a 5% rate applied on turnover. Note that this turnover tax for non-compliant incorporated businesses does not constitute a PTR that is targeted to reduce compliance costs.

Effective monitoring is essential to prevent currently incorporated businesses from restructuring and opting into the PTR for tax optimisation purposes. Above the threshold of THB 300 000, incorporated businesses that qualify as SMEs are subject to a reduced CIT rate of 15% (up to THB 3 million taxable profits). Implementing the PTR may have an unintended side effect: some incorporated businesses (especially those that are highly profitable) may be incentivised to restructure as unincorporated businesses to benefit from the simplified requirements and reduced tax liability under the PTR. Monitoring will also be necessary to ensure that firms within the PTR transition to the general regime as they grow, rather than bunching just below the maximum turnover threshold.

Advantages and disadvantages of different alternatives for determining tax liability

The choice of tax structure affects compliance, fairness and economic incentives. Under a PTR, the tax liability can be a lump-sum amount of tax or be determined by levying a flat tax rate or a progressive tax rate schedule on gross receipts, each of which has advantages and disadvantages.

Lump-sum taxation offers simplicity and transparency but raises equity concerns. A lump-sum amount set too high could impose an excessive tax burden on smaller businesses. In contrast, a low lump-

sum amount would result in a disproportionately low tax burden on larger micro-businesses within the PTR. In addition, larger businesses benefitting from a low lump-sum tax may have limited incentives to grow and transition into the standard tax system, thereby weakening broader formalisation objectives. If lump-sum taxation is chosen, the turnover range for which the PTR is introduced should be kept narrow to ensure that businesses within the PTR are relatively similar in size, thereby reducing inequities among taxpayers.

A flat-rate PTR system would offer a better balance between equity and simplicity but requires strong enforcement to mitigate under-reporting of sales. Thailand could adopt a flat-rate PTR system to ensure that businesses are taxed in proportion to their deemed income. However, turnover-based taxation poses a risk of under-reporting, especially in the absence of robust monitoring mechanisms. Progressive tax rates better align the tax burden with financial capacity, mitigating equity concerns, but further increase complexity and the risk of under-reporting. If Thailand adopts a flat-rate PTR regime but faces short-term challenges in addressing the risks of under-reporting sales, it could initially implement a lump-sum tax before gradually moving to turnover-based taxation as the capacity of the tax administration improves. In addition, if lowering the VAT threshold proves challenging, Thailand could explore a two-tiered PTR structure that distinguishes between smaller and slightly larger micro-businesses. The first tier could apply to own-account workers below a low turnover threshold and levy a lump-sum amount of tax, while a second tier could apply to businesses with higher turnover but still eligible for the PTR (e.g. below THB 1.8 million).

Differentiating tax rates between sectors can enhance fairness but may also create additional risks. While turnover is a simple tax base that requires only simplified accounting and bookkeeping, it does not reflect profitability. As a result, highly profitable businesses will face a lower effective tax burden than less profitable businesses with similar sales. Sectoral differentiation of tax rates can improve alignment between tax liability and profitability, but these measures introduce additional complexity and monitoring challenges. Sector-specific rates may encourage businesses to attempt to reclassify their activities in order to benefit from lower rates. A limited number of differentiated rates can strike a balance between fairness and simplicity. One common approach is to distinguish between commercial activities (e.g. retail and trade) and service activities, as the latter typically have higher profit margins due to lower operating costs.

Social insurance coverage provided under the PTR should be appealing

Defining the scope and adequacy of benefits under the PTR is critical to ensuring its attractiveness. As mentioned above, Thailand is advised to move towards mandatory SSC above the minimum eligibility threshold of the PTR. Self-employed workers or micro-enterprises with few employees have little incentive to comply with tax obligations if they perceive it as a financial cost that does not yield, possibly a contingent benefit, and enforcement remains weak. To support the scheme's attractiveness, and compliance, the social protection benefits included in the PTR should be more generous than the benefits offered under Article 40 (e.g. they could include compensation in case of sickness or injury and maternity benefits). This would also limit the risk that the smallest businesses bunch below the minimum turnover threshold, as they would receive an additional incentive to grow and participate in the PTR. More generous benefits would reduce the protection gap between employees and the self-employed. Basic SSC should be compulsory for the self-employed, regardless of whether they choose to be taxed under the PTR or the PIT. PTRs can include some types of mandatory social protection while offering other benefits on a voluntary basis. For example, in Uruguay, PTR (Monotributo) taxpayers can contribute voluntarily to health insurance coverage for other family members. Determining the appropriate types and levels of benefits requires further consultation with stakeholders, as well as data and actuarial analysis.

A phased implementation of social protection could facilitate the transition towards mandatory SSC. Gradualism allows businesses and tax administrations to adjust gradually, reducing compliance resistance and administrative challenges. For example, Peru has adopted a phased approach to integrating independent workers into its social insurance schemes. Currently, voluntary contributions will

become mandatory in 2028, starting at 2% of monthly earnings and increasing by 1 percentage point every two years until reaching 5% in 2034. A similar approach could ease the compliance burden for businesses in Thailand. This gradual reform strategy would help mitigate the risk of abrupt transitions and ensure that businesses adapt gradually without facing undue financial pressure. The migration of current Article 40 contributors to the PTR should be carefully considered.

A flat tax rate that includes SSC could encourage the formalisation of workers. A single tax rate that incorporates both income tax and SSC would simplify obligations and reduce administrative costs. PTR compliance could provide social security coverage not only for the owner but also for all employees. An alternative could be to compute the PTR liability as the sum of a flat tax rate levied on turnover and a lump-sum SSC amount applied per employee. However, this approach may discourage formal employment as businesses seek to reduce their tax burden. For this reason, applying a single tax rate to a firm's turnover that covers both tax and social security obligations may be preferable. As turnover is generally correlated with the number of workers, larger eligible businesses would incur higher PTR liabilities and thus contribute more to the financing of social security for their larger number of employees. Thailand could use the number of workers reported by businesses to detect abuse or under-reporting of turnover. By comparing the number of workers declared by businesses with peers with similar turnover in the same sector, tax authorities could detect outliers and target enforcement efforts more effectively.

Clear procedures would need to be established to govern the collection and distribution of revenue between agencies, preferably administered by the Ministry of Finance in co-operation with the Social Security Office. To implement this approach, it would be essential to determine how to separate tax revenue from social contributions. It is important to note that revenue from the social security contribution component under the PTR is not expected to be substantial. To put this in context, if all current informal workers were formalised under Article 33, revenues from SSC would increase by 0.3% of gross domestic product (GDP), which is a significantly upper-bound estimate of the potential revenues from SSC under the PTR (see Annex 4.B).

This tax design is not intended to replace the standard tax and SSC regime but rather to facilitate the transition to it. The PTR, including its SSC component, should not be seen as a substitute for the standard tax and SSC system. Instead, it aims to facilitate formalisation and ensure that social insurance coverage is expanded across workers with the expectation that businesses will eventually transition to the standard tax system as they grow. Over time, when the tax administration's enforcement capacity is further strengthened, social insurance contributions should become compulsory for all the self-employed.

Leveraging non-tax incentives to encourage registration

Facilitating access to credit can further incentivise businesses to join the PTR. Lack of access to credit is frequently cited as a key constraint to business development in surveys such as the World Bank Enterprise Surveys (World Bank, 2024^[16]). Registration in the PTR can make businesses more credible and eligible for financial support from banks and microfinance institutions. This argument should be well communicated to taxpayers (and currently informal, unregistered businesses) to incentivise compliance. This incentive could be strengthened through government-backed initiatives, such as guaranteed credit lines for businesses that comply with PTR requirements. Guaranteeing a certain amount of credit would make financial institutions more prone to lend to PTR taxpayers, which could act as an important driver for their formalisation. Such measures would increase participation in the PTR and encourage business growth, which would facilitate the transition to the standard tax system and generate higher tax revenues over time.

Non-tax incentives, such as business training and accounting programmes, can also support compliance and formalisation. Training in business management, accounting and financial planning can help small businesses improve their operations, develop, and prepare for integration into the standard tax system. These capacity-building initiatives could be designed in co-operation with business associations

and financial institutions. To encourage participation, tax administrations could offer temporary reductions in tax liabilities for businesses that complete training, thereby combining business development with financial incentives for formalisation.

Effective monitoring and regulation are essential to prevent non-compliance

A well-administered PTR should prioritise simplicity and accessibility to encourage compliance. Compared to the standard tax system, administrative requirements – such as registration, filing and payment processes – should be streamlined and simplified, with limited reporting frequency and accessible digital and physical platforms (e.g. mobile applications). In addition, establishing one-stop shops could consolidate tax and social security obligations, thereby minimising interactions with multiple public authorities and reducing administrative burdens.

Tax authorities should monitor the PTR regime to ensure compliance and prevent abuse. Given the potentially large number of small taxpayers under the PTR, monitoring costs for the tax administration could be significant. To enhance efficiency, Thailand could establish a dedicated unit within the Ministry of Finance to monitor PTR compliance and analyse broader trends, such as taxpayer participation and sector profitability, to inform policy adjustments. Making business licences conditional on PTR compliance would ensure that only registered and tax-compliant businesses operate legally, facilitating the monitoring process and incentivising compliance. In addition, enforcement should include proportionate penalties to deter tax evasion without imposing excessive burdens on small businesses.

A key enforcement challenge is to ensure that businesses do not under-report their turnover. Larger businesses may under-report turnover below the maximum PTR threshold in order to benefit from simplified procedures and lower tax rates under the PTR, while smaller businesses may under-report their turnover to remain below the minimum PTR threshold and avoid their tax liabilities. Detecting significant bunching of firms just below these thresholds can signal potential non-compliance and guide targeted enforcement action.

Additional indicators can improve enforcement and reduce the risk of misreporting. To enhance the reliability of turnover as a tax base, tax authorities can cross-check information using complementary indicators such as the number of employees, business premises size, years of operation, and input consumption. Collaboration with service providers can facilitate digital access to data on water and electricity use, allowing authorities to detect discrepancies and improve compliance at a lower cost than indicators that require on-site monitoring. However, reliance on such indicators must avoid penalising new businesses, which may incur higher input costs before reaching profitability or discouraging business investment.

The PTR should facilitate a smooth transition to the standard tax system

The PTR should be designed as a transitional mechanism that facilitates integration into the standard tax system. Rather than being a permanent solution, the PTR should serve as an intermediate step towards full compliance with the standard tax and social security systems. Therefore, the PTR design must consider the eventual migration of businesses into the standard regime and ensure a smooth transition without creating disincentives for growth.

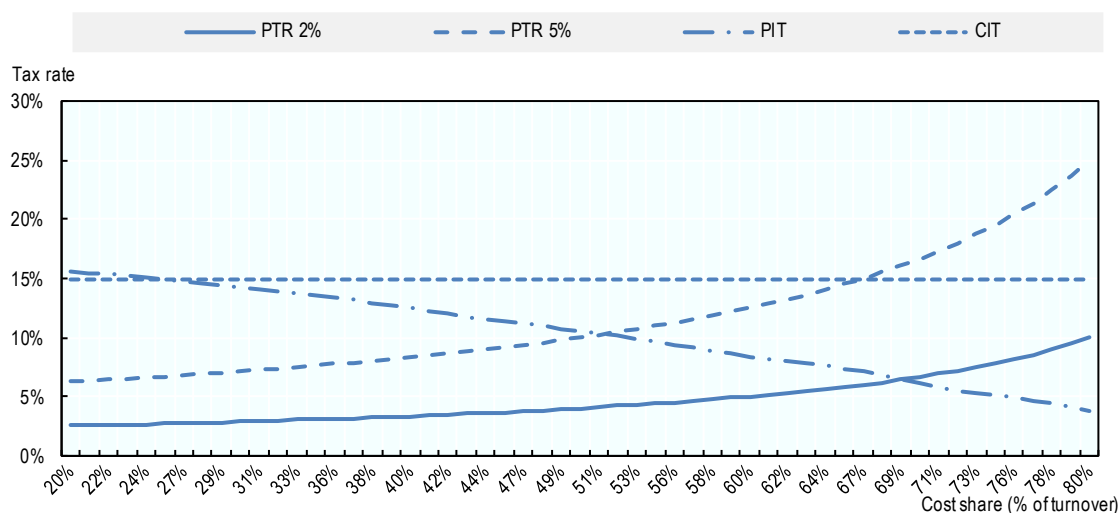
Limiting the tax differential between the PTR and the standard regime is essential to avoid tax-induced incentives to transition into the standard tax regime. A major challenge for migration to the standard tax system is the potential tax burden differential. If the difference in tax burden between the PTR and the standard tax regime is too high, businesses may prefer to under-report turnover or artificially split their activities in order to remain in the PTR. It is, therefore, essential to limit this difference. In addition, the administrative burden of filing tax returns and keeping accounts may further discourage the transition.

Temporary relief measures, such as reduced tax rates or simplified compliance requirements for newly migrating businesses, could help to mitigate these challenges.

Comparing tax rates across regimes is essential to assess the financial implications of moving from the PTR to the standard tax system. Figure 4.6 shows the tax rates on profits under PIT, CIT and the PTR for a turnover of THB 1.8 million, which corresponds to the current VAT registration threshold, subject to various cost-share assumptions. Tax liability under the PTR is applied as a flat tax rate levied on turnover, set at illustrative rates of 2% for the retail sector and 5% for the services sector. However, further analysis is required to determine the most appropriate rates. Under this framework, the PTR would be financially advantageous for service activities provided the cost share does not exceed 51%, and for commerce activities provided, the cost share does not exceed 69% (see the intersection of the PTR series with the PIT series in Figure 4.6). While the CIT rate is flat at 15% for small businesses in scope, the effective tax rate for PIT taxpayers decreases as the share of costs increases due to the progressive PIT rate schedule that applies to the resulting taxable income. While PIT and CIT tax rates do not include SSC, which would need to be paid in addition, the observed tax differentials at typical profit share levels remain moderate.

Figure 4.6. Tax rates on income under the PIT, CIT and hypothetical PTR in Thailand

Effective tax rates on profits for a business with a turnover of THB 1.8 million (current VAT registration threshold) across different cost margin levels (horizontal axis)



Note: On the horizontal axis, increasing expenses are displayed, i.e. the costs a business incurs relative to a fixed turnover of THB 1.8 million. When expenses are zero, the profit is therefore THB 1.8 million and the cost share 0%. In contrast, when expenses reach THB 1.8 million, the cost share rises to 100%. On the vertical axis, tax rates on profits are shown. The CIT rate is fixed at 15%, and the progressive marginal PIT rate schedule (5-35%) applies to the varying taxable income. Two tax rates on turnover are considered for the hypothetical PTR: 2% (for commerce) and 5% (for services). The resulting tax rate on profit is determined by applying the corresponding cost share. It should be noted that the PTR tax rates include SSC, while SSC would need to be added to PIT and CIT tax rates. The overall tax rate differentials between the PTR and income taxes would then be higher than displayed in this figure.

Source: Authors' own elaboration.

Additional measures can facilitate the migration of businesses to the standard tax system. Thailand's tax administration could provide targeted support to businesses leaving the PTR, such as assistance with accounting and tax filing. Eligibility for the PTR could also be limited in time to ensure that businesses eventually move to the standard tax system after a certain period of time (e.g. five to eight years). However, this approach requires strong enforcement mechanisms to prevent businesses from artificially closing and re-opening in order to remain within the PTR.

Box 4.4. Key recommendations on formalisation

Introduce a presumptive regime

- Introduce a turnover-based regime that targets self-employed workers and micro-entrepreneurs and covers income taxes and social security contributions. To do so:
 - Offer social security benefits that are more attractive than those currently provided under Article 40 to micro-entrepreneurs and workers in micro-businesses.
 - Consider setting the minimum eligibility threshold close to the PIT and CIT exemption thresholds.
 - Consider setting the maximum turnover eligibility threshold at the VAT registration threshold.
 - Consider additional eligibility criteria to ensure that non-targeted businesses are excluded but are simple to enforce.
 - Establish clear procedures to govern the collection and distribution of revenue between agencies administered by the Ministry of Finance in co-operation with the Social Security Office.

Update Article 40

- Maintain Article 40 as a voluntary savings scheme only for low-income, self-employed workers.

Eliminate or reduce exemptions from Article 33

- Consider eliminating or reducing the legislated exemptions from Article 33 contributions.

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Annex 4.A. Contributions and benefits under Article 40 in Thailand

Annex Table 4.A.1. Contributions and benefits under Article 40 in Thailand

Coverage for the insured person	Qualifying conditions	Option 1 THB 70/month	Option 2 THB 100/month	Option 3 THB 300/month															
Injury or sickness																			
a- Being hospitalised for a day or more (inpatient)	Paying contributions at least 3 months in the 4 months prior to the month of injury or sickness	THB 300/day	THB 300/day	THB 300/day															
b- Not being hospitalised, but taking 3 days of sick leave or more as specified in the medical certificate		THB 200/day	THB 200/day	THB 200/day															
c- Compensation payment period (for a and b)		Not more than 30 days/year	Not more than 30 days/year	Not more than 90 days/year															
d- Being an outpatient and having a medical certificate		THB 50 per time (3 times/year)	THB 50 per time (3 times/year)																
Invalidity																			
e- Monthly compensation	Depending on the period of contributions: <table><tr><td>At least... (in months)</td><td>In the... (last months)</td><td>Shall receive... (THB/ month)</td></tr><tr><td>6</td><td>10</td><td>500</td></tr><tr><td>12</td><td>20</td><td>650</td></tr><tr><td>24</td><td>40</td><td>800</td></tr><tr><td>36</td><td>60</td><td>1 000</td></tr></table>	At least... (in months)	In the... (last months)	Shall receive... (THB/ month)	6	10	500	12	20	650	24	40	800	36	60	1 000	THB 500-1 000	THB 500-1 000	THB 500-1 000
At least... (in months)		In the... (last months)	Shall receive... (THB/ month)																
6		10	500																
12		20	650																
24		40	800																
36	60	1 000																	
f- Compensation payment period		For 15 years	For 15 years	Lifetime															
g- Funeral grant is provided if the insured person passes away while receiving the compensation		THB 25 000	THB 25 000	THB 50 000															
Death: Funeral grant																			
h- Funeral grant is provided to the funeral manager	Paying contributions at least 6 months in the 12 months prior to the month of death (except for accidents, which require 1 month payment in the 6 months)	THB 25 000	THB 25 000	THB 50 000															
i- Death allowance	Idem + contributions must have been paid for 60 months before the month of the death	THB 8 000	THB 8 000																
Old-age lump sum plus interest																			
j- Old-age lump sum is granted based on the number of instalments in which contributions are paid, plus interest	Reaching the age of 60 and the insured status is terminated		THB 50/month	THB 150/month															
k- Additional old-age lump sum	Idem + paying contributions from 180 months or more			THB 1 000															
l- Additional savings can be deposited, but not more than THB 1 000 per month	Idem		Additional savings up to THB 1 000	Additional savings up to THB 1 000															
Monthly child allowance																			
m- Monthly child until the age of 6 (limited to 2 children at a time)	Paying contributions at least 24 months in the 36 months prior to the month of benefit entitlement Monthly contributions are required while receiving child allowance			THB 200 /person/month															

Source: Social Security Fund, <https://www.sso.go.th/wpr/>.

Annex 4.B. The revenue potential of formalisation under current schemes in Thailand

Extending social insurance coverage would have a limited impact in terms of revenue if all the self-employed remained covered under Article 40. Revenue from contributions of the almost 20 million self-employed and contributing family workers who are not insured with the SSF could amount to 0.4% of GDP if all workers opted for the highest contributions under Article 40 of the SSF (i.e. THB 300 per month). Annex Table 4.B.1 provides estimates of the net revenue from SSC that would be raised if the informal employment within the informal sector were reduced by 10 percentage points (resulting in increased contributions to Article 40). While expanding social protection coverage through voluntary savings schemes is preferable to the current situation, where a large portion of the population remains uninsured, the low contribution amounts indicate that this approach will not substantially contribute to financing social protection. Moreover, the voluntary nature of the scheme makes it unlikely that a significant expansion in coverage can be achieved.

Annex Table 4.B.1. Net revenue associated with an increase in coverage of self-employed workers under Article 40

Revenue from workers' contributions and subsidy from top-up contributions from the government associated with a 10-percentage point reduction in the share of informal self-employed workers and unpaid family workers

		Revenue and subsidy (% of GDP) associated to a 10-percentage-point increase in the share of formal workers		
		Revenue	Subsidy	Net revenue
Option 1	Worker's monthly contribution: THB 70	0.01%	<0.01%	0.01%
Option 2	Worker's monthly contribution: THB 100	0.01%	0.01%	0.01%
Option 3	Worker's monthly contribution: THB 300	0.04%	0.02%	0.02%

Note: The estimates rely on the number of self-employed and unpaid family workers not being members of the SSF in 2023, based on IES data. Monthly contributions from workers under Article 40 are set at THB 70, THB 100, and THB 300 for Options 1, 2, and 3, respectively, with an associated top-up contribution from the government of THB 30, THB 50, and THB 150, respectively.

Source: Authors' own elaboration.

Including current informal workers under Article 33 would increase SSC revenues by 0.3% of GDP. Revenue from employee and employer SSC from private sector employees who are not members of the SSF would represent approximately THB 50 billion (THB 25 billion in employer SSC and THB 25 billion in employee SSC), or 0.3% of GDP in 2023, while the associated subsidy (due to government matching contributions) would amount to 0.08% of GDP. Note that this estimate does not take into account the revenue impact of reducing envelope wages or other forms of partial informality.

Financing Social Protection through General Tax Revenues, Social Security Contributions and Formalisation in Thailand

This report provides a comprehensive assessment of Thailand's social protection system and examines strategies to enhance benefit levels and expand coverage in areas beyond healthcare. The report explores potential tax policy reforms to social security contributions, the value added tax, corporate and personal income taxes, and health and environmentally-related taxes, to mobilise additional tax revenue. The report also assesses measures to expand social insurance, including through the introduction of a presumptive tax regime. In the medium to long term, domestic revenue mobilisation and formalisation efforts will become increasingly crucial as social protection financing needs are expected to rise significantly due to rapid population ageing and the impacts of climate change.



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