

THE COLLECTION AND SPENDING OF THE LOCAL DEVELOPMENT TAX

by Aram Iamaroon

The Local Development Tax, or land tax, is probably the oldest form of taxation in Thailand. In ancient times the land tax, known as the Paddy Farm Duty, was collected in kind. Payment in cash was introduced to Thailand during the reign of King Rama III. The land tax assessed on the basis of area remained in force until A.C. 1938, when it was replaced by a new land tax, called the Local Development Contribution Tax, based on land values. This tax has been modified occasionally but the rental value concept has remained unchanged. At present, the land tax, known as the Local Development Tax, is levied on the appraised capital value of land. Where assessment is based on the capital value, the usual practice is to base the Assessment on exchange or market value, or to capitalize the value of the average annual yield. The former method is applied to the collection of the Local Development Tax.

The Local Development Tax is one of the revenue sources of local self-government. The forms of local self-government in Thailand are: (1) changwad authorities, (2) municipalities, (3) sukhapibals, and (4) tambol authorities. Changwad and tambol authorities are not empowered to collect the Local Development Tax, as are municipalities and sukhapibals. The tax, imposed under the Revenue Code for changwad and tambol authorities is collected by Revenue Department and credited, less collection costs, to those authorities.

In practice, collection of the Local Development Tax for changwad and tambol authorities is actually conducted by the Amphur cashier under the control of the nai amphur and changwad revenue officer. Sukhapibals are empowered to collect the tax, but for reasons of convenience the task is assigned to the Revenue Department.

Lands of the following description are exemption from payment of the tax:

- (1) Royal palaces which belong to the public domain;
 - (2) Land used for governmental of public purposes and not operated for profit;
 - (3) Land used solely for public hospitals, public education or public charity;
 - (4) Land used solely for religious purposes;
 - (5) Cemeteries and crematoria;
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(6) Land used by railways, water works, electric works, government harbors, or land which is used in conjunction with buildings already subject to the House and Land tax;

(7) Land exempted by the Minister of Finance; and

(8) Land used for the owner's own habitation, or for the rearing of livestock, or for the cultivation of seasonal crops which lies within the same province.

Unlike assessment practices in many other countries, the Local Development Tax is assessed on the "medium value" instead of "maximum value" of land. That is, the value of land is determined from the average price of not less than three pieces of land in the tambol or unit sold in the previous year. Evaluation is by "site value", which is defined as the value of unimproved land, i.e., the value of buildings, structures or trees is not taken into account. Level valuations are usually revised every four years, but any person may apply to the changwad governor for revaluation within that four-year period.

The value of land in tambol is established by a committee appointed by the Changwad governor. Appeals must be filed within 30 days. The rates of the Local Development Tax vary from 50 satangs to 400 bahts per rai. If the medium value is over 500,000 bahts an additional tax of 100 bahts is levied on each 100,000 bahts over 500,000.

The Local Development Tax is earmarked for special purposes, as follows: road building, agriculture, public health, public utilities, irrigation, and repayment of loans made for the such projects. In addition, funds must be spent in accord with community development plans. At present, the basis for budgeting by local governments is line-item or organizational unit. Emphasis is now being placed on program budgeting which focuses attention on the programs or objectives to be accomplished.

Revenues derived from the Local Development tax are, by consensus, inadequate in terms of desired rates of community growth. One solution, proposed by the World Bank's Economic Survey Commission in "A Public Development Program for Thailand" is to impose. Thailand's National Economic Development Plan, likewise suggests imposing special charges on land benefited from government supported irrigation projects. Another proposal gives particular attention to rationalizing the tax base, or the application of a land classification and rating system geared to indices of productive capacity. A somewhat different problem has to do with tax delinquency. There are four important causes of land tax delinquency in Thailand. They are: low farm income, crop failures, tax ignorance, and improper tax administration. The first two causes can of course be resolved by raising

living standards. Tax administration can be improved by in-service training programs. Tax ignorance can be reduced the use of penalties and through education. Existing penalties are of two kinds : an addition charge to ten per cent of the tax unpaid, and seizure and sale by public auction of the taxpayer's property, a further problem concerns the distribution of taxes between changwad and tambol authorities. An attempt has been made to revise the present arrangement of distribution in such a way that Local Development Taxed collected in tambols should be given to changwad authorities, less expenses, to the extent of 100 per cent instead of 20. The argument against this proposal is that within citizens in the small tambols can participate more effectively than is possible at the changwad level.

A final problem concerns the extension of the tax to houses and buildings. A combination of the Local Development Tax and the House Tax on real property raises many problems. To illustrate one, the Local Development Tax employs capital value, whereas the House Tax employs an annual rental value concept. If they are combined, what concept should be accepted as most suitable for the tax system of Thailand?

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