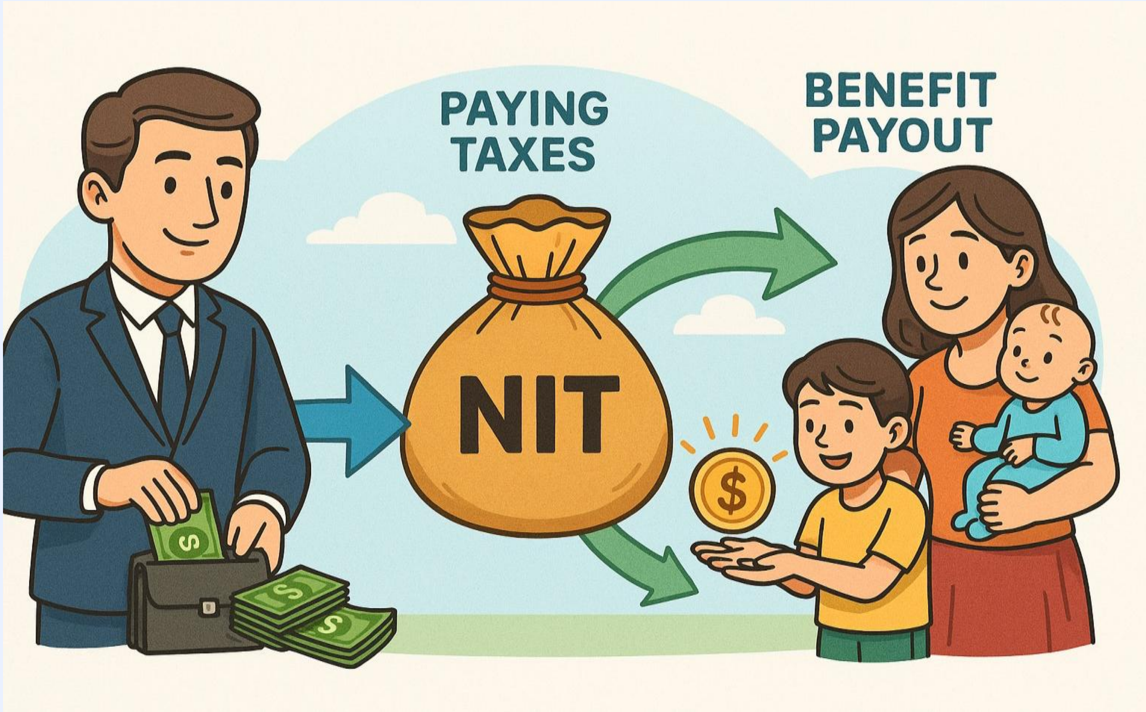
Betting on Welfare: Can Thailand's Negative Income Tax Break the Cycle?



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Thailand is preparing for one of its boldest fiscal experiments in decades: the launch of a Negative Income Tax (NIT) system. By 2027, if plans hold, every citizen will have to file an income tax return—even those below the taxable threshold. For the first time, the tax system would not only collect from the wealthy but also pay out to the poor within the same framework.

The allure is clear. One integrated system could replace Thailand's patchwork of welfare schemes, capture the incomes of its vast informal workforce, and reduce inequality without endless new subsidies. But the risks are just as sharp. Designed poorly, NIT could become another costly populist promise, straining the budget while leaving structural weaknesses untouched.

The Big Idea: From Friedman's Dream to Thailand's Reality

Milton Friedman dreamed up NIT in the 1960s as a way to merge taxation and welfare. Thailand's Fiscal Policy Office has been studying it since 2014, and the 12th National Development Plan names it explicitly.

The proposed design has three phases: top-up transfers for those earning up to 30,000 baht a year, a plateau of steady support around the poverty line, and a gradual phase-out once incomes reach 80,000 baht—roughly the annual value of minimum wage work. Unlike today's cliff-edge schemes, the structure ensures that "work always pays."

Why now? Two unfinished battles

The timing is no accident. Thailand is fighting on two fronts: inequality and informality.

Despite decades of growth, millions still live under the poverty line of 3,043 baht per person per month. Worse, the current welfare net is full of holes—more than half the poor are excluded, while some of the non-poor still collect benefits.

Then there's informality. Over half the workforce never files taxes. Today, just 4.2 million people—less than 6% of the population—actually pay income tax. For a middle-income country aiming to be advanced, that is shockingly low. By forcing declarations and linking them to benefits, NIT could build a reliable fiscal backbone and gradually broaden the tax base.

But this comes at a price. Welfare already consumes 437 billion baht, or 12% of the 2024 budget. A modest NIT, covering 18.5 million people, is projected to cost 56 billion baht annually—0.3% of GDP. Tie it to the real poverty line, and the bill soars. No wonder whispers of a VAT hike above the long-standing 7% are getting louder.

That means the reform is not just about political will, but about society's willingness to pay higher consumption taxes in exchange for a more coherent safety net.

Lessons from Abroad: Models and Missteps

Other countries offer cautionary tales. The US Earned Income Tax Credit, launched in 1975, is still the largest anti-poverty program, but it's riddled with complexity and compliance errors. Canada's ambitious "Mincome" trial in the 1970s showed benefits for health and education but collapsed under fiscal strain. South Korea's EITC helped employment but did little for elderly poverty. Singapore's Workfare succeeds largely because its informal sector is tiny—only 3%.

The lesson is simple: success depends less on theory than on three hard realities—data integrity, labor market structure, and fiscal capacity.

The data hurdle

Thailand is building a "Data Lake" to cover 60 million citizens and 600,000 businesses, intended to verify incomes and determine benefits. It could be the lifeline of the system—or its Achilles heel. The Revenue Department has little experience handling mass transfers. Errors, fraud, or opaque decisions could shatter public trust overnight.

The deeper challenge is cultural. Tax filing is still seen as a burden, not a gateway to benefits. Unless people see "filing equals entitlement," resistance will be strong. Transparency and oversight will decide whether the Data Lake becomes a lifeline—or a black box.

Who wins, who pays

Winners will be the low-income households long excluded from fragmented schemes.

The middle class may adjust, some facing tax bills after years of flying under the radar.

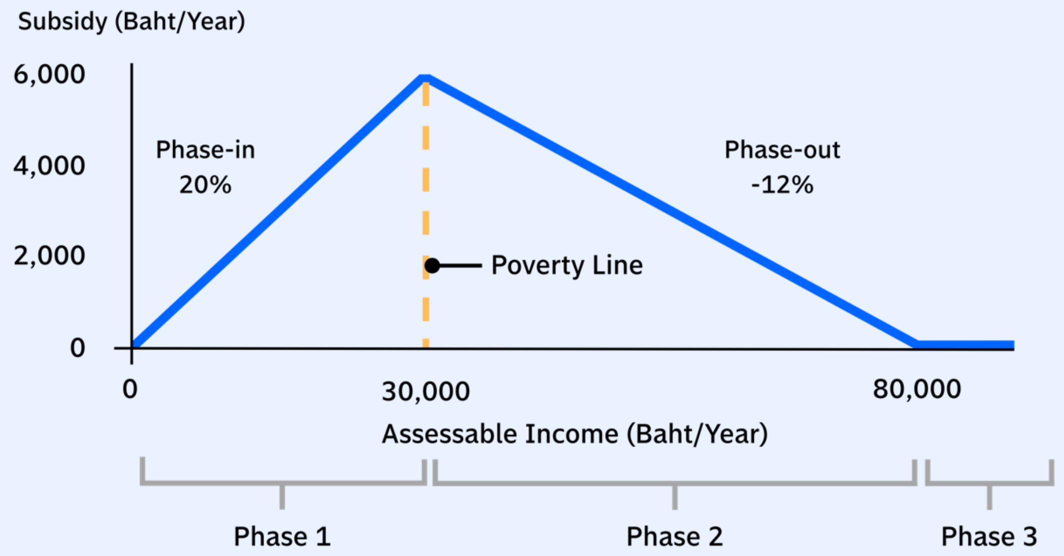
The wealthy will see fewer loopholes, though little changes in their daily obligations.

The bottom line

Negative Income Tax could redefine Thailand's social contract: expanding the tax base, lifting millions out of poverty, and finally putting the informal sector on the fiscal map. Or it could become another mirage, a populist fix that adds strain without solving the core problem.

It all comes down to execution: clean data, incentives that reward work, and political courage to consolidate existing programs into a unified system. Without that, the boldest fiscal experiment in decades may end as just another costly illusion.

Chart1: Proposed Negative Income Tax (NIT) Measures for Thailand



Source: Fiscal Policy Office (2014).

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