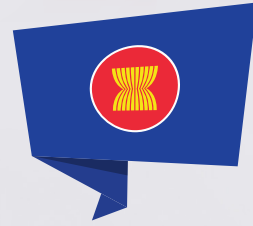




PRAKARSA
Welfare Initiative for Better Societies



Dynamics of Tax Ratios in ASEAN

Case Studies in Indonesia, Thailand and Vietnam



2025

Dynamics of Tax Ratio in ASEAN Case Studies in Indonesia, Thailand, and Vietnam

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This paper is based on the research results of "Dynamics of Tax Ratios in ASEAN Case Studies in Indonesia, Thailand, and Vietnam". The contents of the research report are the sole responsibility of the researcher and author.



Abstract

The tax ratio is a key indicator that reflects a country's fiscal capacity to finance development and reduce economic inequality. This study aims to comparatively analyze the tax ratios of three ASEAN countries—Indonesia, Thailand, and Vietnam. The research employs a qualitative literature and document study method to capture the economic and tax structures, levels of compliance, and fiscal policies of the three countries. The analysis shows that Vietnam has successfully increased its tax ratio through administrative reforms and tax base expansion. Thailand excels in personal income tax reforms and the digitalization of its tax system. Indonesia has demonstrated improvements in taxpayer compliance; however, its reforms, which remain focused on tax rates, have not been effective enough in broadening the tax base. These findings have important implications for the formulation of sustainable fiscal policies in the three ASEAN countries.

Keywords: ASEAN, Tax Ratio, Tax Administration, Tax Policy, Fiscal Reform

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Foreword

Southeast Asia is a dynamic region with rapid economic growth, a large population, and the potential for stronger economic integration. Behind these opportunities, however, lie significant challenges in terms of fiscal equity, state revenue capacity, and inequality reduction. Taxation is a key instrument in addressing these challenges, not only as a source of state revenue but also as a means of redistribution to achieve inclusive and sustainable development.

This research presents a snapshot of the dynamics of tax ratios in three ASEAN countries: Indonesia, Thailand, and Vietnam. This report seeks to answer fundamental questions about how economic structure, tax base, and policy reforms influence tax ratio performance in each country, as well as what lessons can be learned to strengthen the tax reform agenda in the region.

The current global context further emphasizes the urgency of tax reform. In addition to the implementation of BEPS (*Base Erosion and Profit Shifting*) initiated by the OECD/G20, the world is also witnessing the substantive negotiations of the *United Nations Framework Convention on International Tax Cooperation (UN Tax Convention)*. These negotiations have the potential to create a more inclusive and democratic international tax architecture, ensuring that the voices of developing countries—including those in ASEAN—are better represented in the formulation of global tax rules. Therefore, discussions on the dynamics of tax ratios at the regional level need to be placed within the framework of changes to a fairer and more equitable international tax governance.

By providing evidence-based policy recommendations, this report is expected to enrich public discourse and become a reference for policy makers, academics, and civil society.

I express my appreciation and gratitude to the research team who worked hard to compile this report, as well as to the partners and other parties who provided support. I hope this publication will foster a shared commitment to realizing a fairer, more transparent, and more sustainable tax system in Indonesia and the ASEAN region.

Jakarta, September 2025

Ah Maftuchan

Executive Director The PRAKARSA



Executive Summary

The tax ratio is a key indicator of a country's fiscal capacity to finance development as well as a crucial instrument for income redistribution. In Southeast Asia, this issue is increasingly relevant given that countries in the region face dual challenges: increasing development funding needs on the one hand and a limited tax base on the other. This study examines the dynamics of the tax ratio in Indonesia, Thailand, and Vietnam as well as identifies policy reforms that have been implemented, structural challenges faced, and opportunities that can be utilized in both regional and global contexts.

Indonesia's tax-to-GDP ratio has hovered around 10-11% over the past ten years. This figure is relatively low, even below the IMF's recommended minimum target of 15% for developing countries. Indonesia remains highly dependent on indirect taxes, particularly *Value Added Tax* (VAT), while personal income tax contributions remain relatively low due to a narrow tax base and the dominance of the informal sector. Reform efforts through Harmonized Tax Law and the digitization of tax administration through the *Core Tax Administration System* (CTAS) have improved taxpayer compliance, but the results have not been sufficient to significantly increase the tax ratio.

Thailand has performed better than Indonesia, with a tax ratio of around 15%. The major tax reforms in Thailand occurred in 1992, marked by the introduction of the VAT, replacing the business tax. Following the 1997-1998 financial crisis, Thailand significantly reduced the *Personal Income Tax* (PIT) and *Corporate Income Tax* (CIT) rates, as well as the VAT, which remain in effect to this day. However, this policy increased the tax ratio from 15.5% in 1999 to 17.6% in 2007 and 17.2% in 2019 (Martinez-Vazquez, 2022). Currently, like Indonesia, tax reforms in Thailand focus on digitization and efficiency of tax administration, as well as broadening the tax base to target the digital sector.

Vietnam's tax ratio dropped drastically from 14.58% in 2019 to 12.4% in 2020 due to the COVID-19 pandemic. Vietnam's tax ratio is projected to remain at 11.4% in 2024, showing no significant recovery. Vietnam's tax reforms also have a long history. In the initial phase (1990-2005), the Vietnamese government introduced new taxes such as VAT and CIT, and expanded the scope of the consumption tax. Tax revenues increased sharply, increasing 2.3-fold from 1996-2000 compared to the previous period, and doubling again from 2001-2005. The subsequent phase (2006-2010) was marked by a reduction in the corporate income tax rate from 28% to 25%, then further decreasing to 22% and then to 20% in

2017, and the enactment of a progressive personal income tax with seven tiers of rates. This reform was accompanied by administrative modernization, including e-filing which reached 97% in 2014 and an increase in the number of taxpayers from 4 million people in 2006 to 15 million people in 2014.

All three countries face similar structural challenges. The dominance of the informal sector limits the government's ability to broaden the tax base. In Indonesia and Thailand, more than half of the workforce remains in the informal sector, while in Vietnam the figure is lower but still significant. Furthermore, the tax structure remains heavily reliant on indirect taxes such as VAT and excise taxes. The contribution of direct taxes, particularly personal income tax, remains relatively low, thus redistribution potential through the tax system remains suboptimal. This situation increases the risk of socio-economic inequality, which, if not managed properly, can trigger political and social unrest, undermine government legitimacy, and even generate resistance to new tax policies.

Historically, tax reforms in Indonesia, Thailand, and Vietnam have generally aimed to reorganize the tax system to make it more balanced and minimize potential distortions to the economy. These efforts were reflected in adjustments to the PIT, CIT, and VAT rates, designed to minimize taxpayers' excessive burdens and maintain public purchasing power. The tax reforms proved effective and significantly increased the tax ratio. However, as time progressed, the goal of tax reform was no longer simply to increase revenues, it now focuses on **simplifying the tax system, modernizing digital-based administration, and achieving fiscal equity**.

System simplification is necessary because regulatory complexity often results in high administrative costs, increases the burden of compliance, and opens up opportunities for corruption and tax evasion. Modernization through digitalization—through e-filing, e-invoicing, big data, and population data integration—is key to administrative efficiency and a means of expanding the taxpayer base. Meanwhile, achieving fiscal justice is an urgent agenda because widening economic inequality has the potential to cause social unrest. The principle of fiscal justice demands that those with greater means bear a more proportional tax burden, while lower-income groups receive protection through progressive public spending.



Based on the findings and lessons learned from the experiences of Indonesia, Thailand, and Vietnam, several policy recommendations can be formulated as follows:

1. Strengthening tax compliance and controlling the shadow economy.

The government needs to expand its compliance strategy to include the shadow economy sector, for example, on e-commerce platforms, through automated withholding and reporting mechanisms or third parties. Global coordination through the UN Tax Convention is also relevant to curbing cross-jurisdictional tax avoidance practices.

2. Proportional expansion of the tax base.

Expansion of the tax base should include informal economic activities through a light or transitional scheme, hence making it fairer than simply increasing rates, which could potentially depress people's purchasing power.

3. Utilization of digital technology and artificial intelligence (AI).

Big data and AI can strengthen system accuracy, expand VAT coverage, detect anomalies, as well as provide real-time information, thereby increasing administrative effectiveness and enhancing public trust.

4. Evaluate tax incentives.

Incentives need to be systematically assessed to ensure they truly promote inclusive growth and not simply benefit a limited group. An evaluation framework based on economic, social, and fiscal indicators is needed to ensure fiscal sustainability.

5. Diversification of new tax instruments.

Digital taxes can capture potential cross-jurisdictional transactions, while carbon taxes can support the energy transition and environmental sustainability. Both serve a dual purpose: increasing state revenue while contributing to the Sustainable Development Goals (SDGs).

In conclusion, tax reforms in Indonesia, Thailand, and Vietnam should not be viewed solely as fiscal instruments but as part of a social contract between the state and its citizens. The reforms emphasizing on digitalization, broadening the tax base, and fiscal justice will not only improve tax ratios but also support more inclusive, equitable, and sustainable development in the Southeast Asian region.

Chapter 1.

Introduction



1.1 Background

The tax ratios of ASEAN countries are relatively low compared to the average middle-income country and far below those of OECD countries. In fact, ASEAN countries still fall below the Asia-Pacific region's average tax ratio of around 19.8% in 2021. The tax-to-GDP ratio in the ASEAN region declined in 2022 compared to pre-pandemic levels in 2019, with the exception of Indonesia, Laos, and Thailand. This phenomenon indicates that despite a GDP recovery post-COVID-19, the decline in tax revenues outweighed the GDP increase in the majority of ASEAN countries. In Indonesia, the implementation of the Harmonized Tax Law (UU HPP) appears to have contributed to an increase in the tax ratio, surpassing pre-pandemic levels (Qibthiyyah & Sabrina, 2023).

In theory, a high tax-to-GDP ratio can reduce economic inequality because taxes can be used for income redistribution programs. However, the OECD (2023) shows that this pattern is not always consistent among the three ASEAN countries. Thailand, with the highest tax ratio (16.9% of GDP), actually has a higher level of inequality (Gini coefficient 0.36) than Vietnam (tax ratio 15.1%, Gini 0.35). Meanwhile, Indonesia, with the lowest tax ratio (10.8%), does have higher inequality (Gini 0.38), consistent with the theory that lower taxes are associated with greater inequality. Thus, Thailand is an exception because, despite collecting higher taxes, its inequality is not lower than Vietnam.

A comprehensive study by Alvaredo et al. (2018) in the *World Inequality Report* demonstrated a significant correlation between a less progressive tax system and the high concentration of wealth among the elite groups. The IMF (2022) in its *Fiscal Monitor* emphasizes that equity-oriented tax reforms not only improve tax ratios but also address structural inequality by enhancing fiscal capacity for inclusive public investment.

In the ASEAN context, many countries face challenges in broadening the tax base and improving tax compliance. A comprehensive approach encompassing tax structure reform, increased administrative capacity, as well as the integration of social justice principles into fiscal policy is becoming increasingly urgent. These reforms aim not only to increase tax ratios but also to strengthen the state's legitimacy in providing public services, reduce inequality, and foster public trust in a fair and transparent tax system.

This research is important because Indonesia, Vietnam, and Thailand currently face serious challenges in optimizing state revenues to fund sustainable and inclusive development. This research is expected to contribute to academic discourse on the relationship between tax policy and inequality in the ASEAN region as well as provide an analytical framework that policymakers can use to design more effective and equitable tax systems.

1.2 Research Questions

Based on the background described above, this study seeks to answer following research questions:

1. What are the characteristics and how is the implementation of tax policies in Indonesia, Thailand and Vietnam?
2. What efforts have Indonesia, Thailand, and Vietnam made to increase tax revenue and tax ratios?
3. What challenges do Indonesia, Thailand, and Vietnam face in their efforts to increase the tax ratio?

1.3 Research Objectives

This research aims to:

1. Identify tax policies in Indonesia, Thailand, and Vietnam.
2. Identify the efforts undertaken by Indonesia, Thailand, and Vietnam to increase tax revenue and improve tax ratios.
3. Identify the challenges faced by Indonesia, Thailand, and Vietnam in increasing tax revenue and ratio.

1.4 Scope and Limitations of the Research

1.4.1 Scope of the Research

This research focuses on tax policy analysis, using case studies of Indonesia, Thailand, and Vietnam. It examines developments in the tax ratio to GDP, the structure of tax revenues, policy dynamics, and the various strategies adopted by these three countries to increase tax revenues and ratios. This study compares macroeconomic and fiscal indicators across the three countries as a basis for the analysis. The analysis examines the structure of tax revenue, the types of taxes applied, tax rates, and impactful tax administration reforms. Furthermore, this study examines structural aspects such as the level of labor informality and income distribution inequality. Beyond identifying similarities and differences in tax policies among the three countries, the study also evaluates broader implications for tax reform in the ASEAN region, including global challenges such as tax evasion and tax avoidance

1.4.2 Limitations of the Research

This research is limited to three countries, namely Indonesia, Vietnam, and Thailand, selected as representative case studies in the ASEAN region. The analysis was conducted through a literature review using secondary data from official publications by international institutions such as the World Bank, OECD, and IMF, as well as government data from each

respective country. This research was enriched by discussions with experts from the three countries in order to strengthen the validity and confirm the data used. However, the research results depend on the availability and the recency of data, thus future updates on information need to be accommodated through further research.

Chapter II.

Literature Review



2.1 Tax Ratio Concept

The tax ratio is one of the most fundamental and widely used fiscal indicators to measure a country's domestic resource mobilization capacity to support national development financing. Technically, the tax ratio is calculated by dividing total government tax revenue by the Gross Domestic Product (GDP) for the same period, and expressing the result as a percentage (OECD, 2023). This indicator reflects the effectiveness of a country's tax administration system and the government's ability to optimize economic potential as a source of public revenue (Gupta & Plant, 2021). According to the World Bank method, the tax ratio is calculated by comparing total tax revenue with GDP at market prices. This value is then stated as a percentage so that the tax ratio represents the proportion of tax revenue to the overall size of the economy. The formula for calculating the tax ratio can be formulated as follows.

$$\text{Tax Ratio} = \frac{\text{Total Tax Revenue}}{\text{GDP at market prices}} \times 100\%$$

The tax ratio is also an international benchmark for assessing fiscal performance, with countries with a ratio below 15% categorized as having weak fiscal capacity and facing limitations in financing essential public services (IMF, 2022). In the context of economic development, an optimal tax ratio not only reflects a government's ability to collect revenue but also indicates the level of economic formalization, the quality of tax institutions, and the level of taxpayer compliance in a country (Gaspar et al., 2016). Therefore, increasing the tax ratio is a crucial agenda for developing countries to strengthen fiscal capacity and support the achievement of Sustainable Development Goals (SDGs) (World Bank, 2021).

The tax ratio also reflects the economic structure and quality of the tax administration system. Fenochietto and Pessino (2013) found that countries with low tax ratios (<15% of GDP) generally have large informal economies (>35% of the workforce) and a high dependence on indirect taxes (>60% of revenue). For example, Southeast Asian countries with tax ratios below 15%, such as Indonesia, Vietnam, Thailand, Malaysia, and the Philippines, record a large informal sector presence in their economy structure. Research by Nguyen et al. (2022) in ASEAN further shows that direct taxes contribute only 38% of total tax revenue in Indonesia, far below Thailand (52%) and Vietnam (47%). The significant contribution of indirect taxes to a country's tax structure requires attention. Bird and Zolt (2008) stated that the dominance of indirect taxes has the potential to increase the regressivity of the tax system. Empirical evidence by Alm et al. (2019) based on a study of 50 developing countries, confirms that a 1 percent increase in the size of the informal sector reduces the tax ratio by 0.3 percent.

Low tax ratios in developing countries are often attributed to structural challenges such as tax base fragmentation. IMF research (2023) revealed that 72% of micro, small, and medium enterprises (MSMEs) in Indonesia are not registered as taxpayers, compared to 45% in Vietnam following the implementation of its e-tax reform. A case study by Gemmell and Hasseldine (2019) in Kenya demonstrated that digitizing the tax system increased taxpayer compliance by 28% in three years. However, Sukmana and Putra (2021) warn that bureaucratic complexity in Indonesia causes compliance costs to reach 2.1% of GDP as the highest in ASEAN. This finding is supported by World Bank data (2022) that shows that the time required to complete tax obligations in Indonesia (256 hours per year) is three times longer than in Malaysia.

Although the tax ratio is an important indicator of fiscal capacity, it is not absolute because it does not reflect the overall progressiveness of the tax system. Besley and Persson (2014) in a study of 110 countries, found that countries with medium tax ratios (20–25 percent) but supported by progressive tax systems have lower inequality, as indicated by a Gini coefficient of around 15% lower than countries relying on regressive taxes. A best example practice can be seen in Norway, which has been able to maintain a high tax ratio of 39 percent through a combination of a progressive income tax and a carbon tax (OECD, 2023). On the other hand, increasing the tax ratio is not solely determined by the rate, but also by administrative effectiveness. Kleven et al. (2020), for example, found that random tax audits can improve compliance and increase revenue by up to 22 percent without change in tax rates. Relevant to the ASEAN context, Jha and Sahni (2019) show that Thailand successfully increased its tax ratio by 2 percent within five years through personal income tax reforms utilizing big data.

Therefore, increasing the tax ratio requires a multidimensional approach tailored to country-specific needs. Research by Gupta and Tareq (2021) in a study of 40 middle-income countries, demonstrated that a tax reform package combining digitalization, compliance incentives, and law enforcement increased the tax ratio by an average of 3.5% over a decade. A World Bank (2023) case study on Vietnam showed that the implementation of e-invoicing reduced the tax gap by 1.2% of GDP within two years. The OECD (2023) recommendations emphasize the need for a 3P framework: *Policy* (structural reform), *Process* (digitalization), and *People* (human resource capacity building). These findings align with the Tax Administration Diagnostic Assessment Tool (TADAT) model which has been adopted by 60 countries to support holistic tax reform.

2.2 Tax Capacity and Tax Effort

2.2.1 Tax Capacity

Tax capacity refers to a government's ability or region to generate revenue through taxation, which is essential for funding public services and supporting economic development. Studies on tax capacity examine its determinants, methods of measurement, and policy implications, particularly within diverse economic and institutional contexts.

There are various determinants factors of tax capacity, including institutional, economic, social, geographic, and political factors. Key institutional determinants include legal certainty, the quality and capacity of human resources in tax collection institutions, and an efficient tax system. Clear, consistent, and open-ended tax regulations are essential to prevent fraud by both taxpayers and tax collectors. Strong institutional capacity—supported by qualified human resources and a transparent, accountable, and fair tax system—can enhance a country's fiscal capacity. Conversely, legal uncertainty, high levels of corruption, and inefficient tax administration undermine public trust in the government and contribute to low tax revenue collection.

Economic and social factors related to a country's economic growth and public welfare are significant drivers of tax capacity. Economic growth reflects increased production, consumption, and investment, which directly contribute to the expansion of the tax base and government revenue. However, the impact of these factors can vary across regions due to differences in socioeconomic development (Tagem & Morrissey, 2023; Victorova et al., 2020; Beramendi & Rogers, 2018).

Geographical and political factors in a country, in this case geographical disparities and conflicts of interest, can give rise to political disputes that hinder the development of a centralized tax collection system, thus affecting overall fiscal capacity (Beramendi & Rogers, 2018).

Measurement and assessment methods can be carried out through direct and indirect approaches. Tax capacity can be assessed using direct methods (focusing on actual and potential tax revenues) and indirect methods (analyzing economic infrastructure, workforce, and resource potential). Combining these methods improves tax revenue forecasting and planning at the local and regional levels (Basnukaev, 2022; Manvel, 1973). Empirical and experimental research from recent collaborations between researchers and tax authorities has enabled the use of randomized and natural experiments to better understand tax administration, taxpayer behavior, and the impact of digitalization and information on tax collection (Pomeranz & Vila-Belda, 2019).

In Europe, tax capacity is shaped by a mix of direct taxation, resource collection, and off-budget loans, creating a fiscal center with significant revenue-generating capacity (Groenendijk, 2023). In sub-Saharan Africa and Russia, tax capacity has generally improved over time, particularly in low-income regions, but remains sensitive to institutional and

economic variables (Tagem & Morrissey, 2023; Victorova et al., 2020). Empirical evidence also suggests the existence of a tax-to-GDP “tipping point” at approximately 12.75%, beyond which countries tend to experience significantly higher long-term economic growth over time (Gaspar et al., 2016).

In essence, limited tax capacity can lead to tax evasion and suboptimal tax system design. Government legitimacy, efficiency, and credibility are crucial for taxpayer compliance and maximizing tax capacity (Fauvelle-Aymar, 1999; Arbex & Mattos, 2020). Tax capacity is shaped by a complex interaction between institutional, economic, geographic, and political factors. Effective tax capacity measurement and improvement require robust assessment methods and a supportive institutional framework. Increased tax capacity is associated with better economic outcomes and it is essential for sustainable national development. A progressive tax system also plays a key role in income redistribution. Studies by Alvaredo et al. (2018) and the IMF (2022) confirm that increasing the tax ratio through income and wealth taxation can reduce inequality. However, many ASEAN countries continue to rely heavily on regressive consumption taxes, which tend to exacerbate social inequality.

2.2.2 Tax Effort

Tax effort is a key concept in public finance that reflects the extent to which a country or region is able to mobilize tax revenue relative to its tax capacity. Understanding tax effort helps policymakers assess whether a tax system is performing efficiently and identify areas that require reform or improvement, particularly in developing countries (Newlyn, 1985; Kawadia & Suryawanshi, 2021; Canavire-Bacarreza, Deza, Manzano, & Puerta, 2021; Dalamagas, Palaos, & Tantos, 2019).

Tax effort is generally measured as the ratio of actual tax revenue towards estimated tax capacity, with the tax ratio (tax revenue as a share of GDP) being the standard metric. However, this approach has limitations, as it may not fully capture the impact of discretionary policy changes. Alternative measurement methods, such as those based on utility maximization or stochastic frontier analysis, aim to provide more accurate or nuanced estimates of tax effort by considering factors such as GDP, consumption, and policy-driven changes in the tax structure.

Tax effort is determined by several factors, among the others are economic and structural factors, institutions, and policies. Key determinants include per capita income, the share of agricultural activity, infrastructure development, labor force characteristics, and access to bank credit. Higher levels of development, trade openness, and education are associated with greater tax effort, while inflation, income inequality, and a large agricultural sector tend to reduce it. Institutional quality, such as levels of corruption, voice, and accountability, significantly impacts tax effort. Improved governance and accountability can increase tax performance in both developing and high-income countries.

Experimental evidence suggests that individuals are more likely to evade taxes on income earned with minimal effort, as effort influences their reference point and aspirations in compliance decisions. The level of effort expended to earn income influences taxpayers' decisions in reporting their income. Taxpayers earning income with high effort tend to be more compliant than those earning income with low effort. Researchers have found that high effort creates a certain aspiration level that serves as a reference point in tax decision-making. When this aspiration can be met through honest reporting, taxpayers are more likely to avoid risk and comply with tax obligations. Conversely, income earned with low effort is often perceived as "easy money", thus increasing the tendency to evade taxes (Kirchler, Muehlbacher, Hoelzl, & Webley, 2009).

2.3 Common Challenges in Developing Countries

Gordon & Li (2009), Kleven et al. (2016), and Jensen (2019) mentioned several common challenges that always exist in developing countries, including: the dominance of the informal sector, a narrow tax base, complex tax administration, and incentive policies, as well as weaknesses in governance and supervision.

First, the dominance of the informal sector. The informal sector is a major challenge to the tax system in developing countries, accounting 35–50% of GDP but contributing less than 15% of tax revenue (Gordon & Li, 2009). This phenomenon occurs because the majority of informal businesses maintain a micro-scale to avoid tax obligations, creating what is known as a "poverty trap" in the fiscal system (Kanbur & Keen, 2014). Field studies in 15 developing countries indicate that 60% of micro and small businesses are not registered as taxpayers (IMF, 2021). This situation is exacerbated by low levels of financial literacy and distrust toward government, which lead to resistance to formalization (Alm et al., 2019). Comprehensive solutions are needed to integrate the informal sector into the modern tax system without burdening small businesses (World Bank, 2022).

Second, a narrow tax base. A narrow tax base is a chronic structural problem in many developing countries, where less than 10% of the adult population pays income tax (Jensen, 2019). Research in Southeast Asia reveals that 70% of tax revenue comes from large corporations and consumption taxes, creating inequality in the tax system (ADB, 2020). This system, which relies on indirect taxes, is regressive and exacerbates income inequality (OECD, 2021). Tax base reform requires expanding the number of individual taxpayers through the integration of population and financial data (Fenochietto & Pessino, 2013). South Korea's experience shows that modernizing the tax database can increase the number of taxpayers by up to 40% within a decade (Kim & Lim, 2018).

Third, the complexity of administration and incentive policies. Tax systems in developing countries are often characterized by procedural complexity and convoluted bureaucracy (Kleven et al., 2016). A comparative study found that it takes an average of 240 hours per year to fulfill tax obligations in developing countries that five times longer than taxpayers in

OECD countries (World Bank, 2021). Overlapping and uncoordinated tax incentive policies actually create loopholes for tax evasion (Zolt & Bird, 2005). An evaluation of tax holiday programs in 20 developing countries showed that 65% of incentives failed to achieve their job creation targets (UNCTAD, 2022). Simplifying systems and harmonizing incentive policies are essential prerequisites for improving the effectiveness of tax collection (IMF, 2022).

Fourth, weakness in governance and oversight. Weak tax governance is the root cause of low tax ratios in many developing countries (OECD, 2022). The Global Fiscal Integrity Index shows that 80% of developing countries have tax oversight systems below international standards (Transparency International, 2021). Corruption in tax institutions is a major obstacle, with estimated leakage reaching 30% of potential revenue (Fisman & Wei, 2004). Limited audit capacity results in less than 5% of taxpayers being audited annually (Bird & Zolt, 2008). Institutional strengthening through digitalization and increasing the professionalism of tax officials are key solutions to improving accountability (Gillitzer, 2019).

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Chapter III.

Research Methods



3.1 Research Approach

This research applies a qualitative approach using a literature review method combined with a cross-country case study design. The literature review method was chosen because it allows for systematic information collection from various credible secondary sources, including reports from international organizations (World Bank, IMF, OECD), academic publications, and official government documents from Indonesia, Thailand, and Vietnam. This approach is relevant because taxation topics are closely related to formal regulations and official statistical reports, making secondary data the primary source for capturing fiscal policy dynamics.

A case study design was applied to examine tax policy implementation in depth within each country. Each country was treated as a separate unit of analysis which a focus on policy implementation, the instruments used, and contextual factors influencing tax revenue performance. The analysis was conducted using *content analysis* with a thematic approach (Braun & Clarke, 2021; Vaismoradi et al., 2016), which enabled consistent identification of key themes related to strategies for increasing tax ratios, administrative challenges, and the use of new instruments.

The results captured of each case were then used to examine potential similarities and differences in the tax policies of the three countries. This approach was not intended to make strict quantitative comparisons, but rather to understand the policy dynamics within each country's context and identify potential overlaps in relevant policy patterns. In this way, the research is expected to provide a contextual overview as well as develop conceptual insights that can enrich the discourse on strategies for increasing tax ratios in developing countries.

3.2 Data Sources and Collection Techniques

This study uses secondary data collected through literature and data study. The use of literature study as the primary data collection method is recognized for its validity, in particular for knowledge synthesis, policy analysis, and comparative studies when primary data are difficult to access or inefficient to collect (Snyder, 2019; Torraco, 2016). The data collection process was conducted systematically to ensure accuracy and reduce bias of selection (Petticrew & Roberts, 2006).

Source identification focused on credible and relevant literature, including international databases such as the IMF, World Bank, ADB, and OECD; publications from national institutions in the three countries (such as the Ministry of Finance, Directorate General of Taxation, Central Bureau of Statistics, Central Bank, and their equivalents in Thailand and Vietnam); reputable academic journals indexed in Scopus, Web of Science, Google Scholar, and EconLit; institutional reports from research organizations; and ASEAN publications.

The use of diverse data sources was intended to ensure data validity through triangulation (Flick, 2018).

Search strategies using specific keywords such as “tax ratio”, “tax policy”, “tax administration”, “tax compliance”, “Indonesia”, “Thailand”, “Vietnam”, “ASEAN”, and so on in databases and academic search engines. A clear and documented search strategy enhances the transparency and replicability of the research (Booth et al., 2021).

Selection Criteria (inclusion and exclusion) were filtered based on topic relevance (tax policy/administration, tax ratio), geographic focus (Indonesia, Thailand, Vietnam), publication timeframe, and availability of substantive data or analysis. Explicit selection criteria are essential to maintain focus of the research (Siddaway et al., 2019).

Finally, quantitative data extraction (such as tax ratios, GDP, tax composition) and qualitative information (including policy description, factor analysis, challenges, strategies) were systematically extracted from selected sources using forms or data extraction matrices to ensure consistency (Gough et al., 2017).

3.3 Data Analysis Techniques

The data analysis in this study was conducted using a literature review approach with a cross-country case study design. Data were obtained from international organizations' publications (World Bank, IMF, OECD), academic articles, and official government documents from Indonesia, Thailand, and Vietnam. The analysis was conducted using *content analysis* technique with thematic approach to identify key themes related to policy, implementation, challenges, and contextual factors influencing tax ratios (Braun & Clarke, 2021; Vaismoradi et al., 2016).

Case studies were applied to each country as the unit of analysis, focusing on applicable tax policies, the instruments used, and the dynamics of the accompanying fiscal context (Yin, 2018; Goodrick, 2014). The results of the literature analysis were then validated through expert discussions with experts from each country (Indonesia, Thailand, and Vietnam). This validation aims to confirm the findings, fill data gaps, and ensure the accuracy of interpretation within each national context.

Through this stage, the analysis not only presents a description of the literature but also gains insights from the practical perspectives of experts. Thus, the research yields a more comprehensive understanding of tax strategies and their implications toward the national tax ratio, as well as enhancing the credibility of analysis results.

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Chapter IV.

Economic and Fiscal Protrait of Indonesia, Thailand, and Vietnam

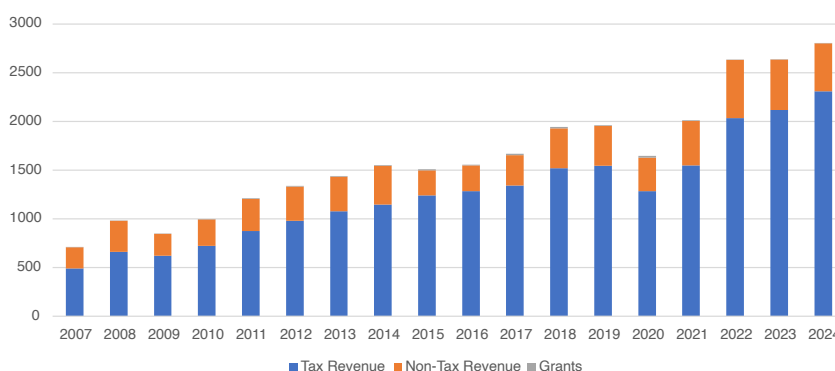


4.1 Indonesia

Indonesia is the largest economy in Southeast Asia, with a Gross Domestic Product (GDP) of USD 1,396.3 billion in 2024. Indonesia's large economy is supported by a population of over 283 million. However, despite its large GDP, Indonesia's GDP per capita was only USD 4,925.43 in the same year, relatively lower than several other ASEAN countries such as Singapore, Brunei Darussalam, Malaysia, and Thailand. Indonesia's economic growth over the past decade has been relatively stable, averaging around 5% per year. This stability demonstrates fairly good economic resilience, although improving the welfare of the population still faces challenges given the low GDP per capita compared to neighboring countries. The structure of Indonesia's GDP from the expenditure side shows that household consumption is the main support, contributing around 53% of GDP. Other supporting factors are investment at 30,86%, followed by net exports at 7.9%, and government spending at 7.2% (Central Bureau of Statistics, 2024). The dominance of consumption indicates that people's purchasing power is the main driver of economic growth in Indonesia.

From a fiscal perspective, Indonesian government revenues experienced an upward trend between 2007 and 2024. In 2024, Indonesian government revenue was recorded at IDR 2,802 trillion, or approximately USD170 billion (Central Bureau of Statistics, 2024). More than 80% of state revenues come from taxes, indicating a very high dependence on tax instruments as the primary source of national development financing. Tax revenues consist of domestic tax revenues and international trade tax revenues. Between 2007 and 2024, domestic tax revenues accounted for approximately 96%, while the remaining 4% came from international trade tax revenues.

Graphic 4.1 Indonesia Government Revenue Structure 2007-2024

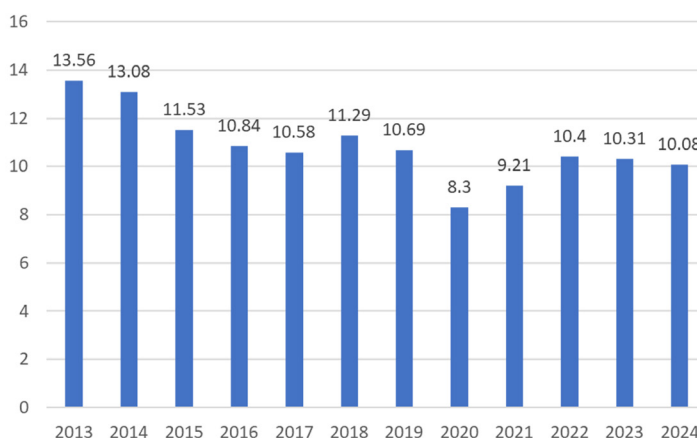


Source: Ministry of Finance (MoF), 2024

However, Indonesia's tax-to-GDP ratio remains low. The graph below shows the development of Indonesia's tax-to-GDP ratio from 2013 to 2024. Throughout this period, Indonesia's

average tax ratio was only 10.82%, lower than other countries in Southeast Asia region, such as Malaysia, Thailand, the Philippines, and Vietnam. The IMF has recommended that a country's tax ratio be at the minimal at 15% of GDP, but Indonesia's tax ratio has not approached that figure in the past decade. In 2013, Indonesia's tax ratio once reached 13.5%, the highest during the 2013–2024 period. Indonesia's tax ratio once fell to 8.3% in 2020 due to the economic contraction caused by the COVID-19 pandemic. Indonesia's tax ratio gradually improved in 2021 and 2022, but declined again in 2023 and 2024.

Graphic 4.2. Development of Indonesia's Tax Ratio to GDP 2013 – 2024 (in percentage)



Source: MoF, 2024

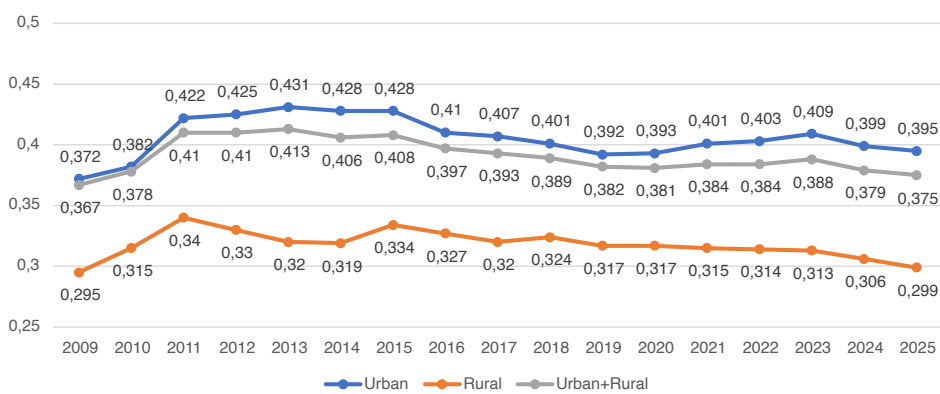
Non-Tax State Revenue (NTSR) refers to government revenue from various sources outside of taxes, such as revenue from the natural resources sector, government services, and dividends from State-Owned Enterprises (SOEs). The amount of Non-Tax State Revenue (NTSR) varies from year to year, with the highest figure reaching IDR 595.6 trillion (USD 36.3 billion) in 2022. However, between 2007 and 2024 time period, the contribution of NTSR to total state revenue tended to decline, from around 30% in 2007 to below 20% in 2024. On the other hand, grant receipts have a very small and fluctuating role. For example, in 2023, grants contributed only IDR 0.4 trillion, the lowest figure during that period.

Indonesia still has a very large informal sector. According to data of Central Bureau of Statistics (BPS), as of August 2024, 83.83 million Indonesians worked in the informal sector. This figure represents 57.95% of the total workforce. The percentage of workers working in the formal sector varies across Indonesia. Only five provinces have more than 50% of their workforce employed in the formal sector, namely Riau Islands (68.45%), DKI Jakarta (63.69%), East Kalimantan (57.68%), Banten (53.79%), and Central Kalimantan (50.67%) (BPS, 2024). Several regions with the lowest formal workforce are in the eastern region, such as West Nusa Tenggara (29.49%), West Sulawesi (27.92%), East Nusa Tenggara (26.68%),

and Central Papua (12,98%) (BPS, 2024). Furthermore, data from the Ministry of Micro, Small, and Medium Enterprises (MSMEs) indicates that the number of MSMEs in Indonesia reached more than 64 million unit of businesses by the end of 2024, spread across various sectors, or 99% of the total unit of businesses in Indonesia, contributing more than 60% to GDP. The large number of the informal sector, dominance of micro and small enterprises, and limited of banking system hinder the government’s capacity to collect taxes effectively (Gordon & Li, 2009; Kleven et al., 2016; Jensen, 2019).

In theory, a high proportion of the informal workforce, the dominance of MSMEs, and limited state revenue capacity—particularly taxes as a redistribution instrument—can contribute to widening income inequality. The Gini ratio can be used as a measure of income or wealth distribution, with a value between one and zero. The higher the Gini ratio, the higher the level of inequality in a region. Graphic 4.3 shows the development of the Gini ratio in Indonesia, both in rural and urban areas, as well as the average figure in rural and urban area. The average Gini ratio in urban and rural areas in Indonesia between 2009 and 2025 showed a downward trend in recent years. Central Bureau of Statistics (BPS) in 2025 shows that the Gini ratio in the first semester of 2025 reached 0.375. This figure represents a decrease from the previous two years, respectively 0.388 in 2023 and 0.379 in 2024. This is due to the Gini ratio in rural areas, which has experienced a steady decline since 2011, reaching 0.299 in the first semester of 2025. In general, the Gini ratio in urban areas is higher than Indonesia’s Gini ratio in rural areas. However, unlike in rural areas, the Gini ratio in urban areas is more fluctuating, with a gradual upward trend throughout 2020-2023 before declining again in 2024 and 2025.

Graphic 4.3. Development of Indonesia Gini Ratio Semester I 2009 – 2025



Source: Statistics Indonesia, 2024



4.1.1. Indonesian Tax Structure

In Indonesia, taxes are divided into two types based on their collectors and administrators: central taxes and regional taxes. Regional taxes are taxes collected and administered by local governments. Regional taxes are regulated by Law No. 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments. Meanwhile, central taxes are taxes collected and administered by the Directorate General of Taxes under the Ministry of Finance of the Republic of Indonesia. The taxes discussed in this report refer to central taxes.

Central taxes in Indonesia are regulated by the Law on General Provisions and Tax Procedures (Law No. 28 of 2007), which was later amended by the Law on Harmonization of Tax Regulations (Law No. 7 of 2021). Central taxes consist of personal income tax, corporate income tax, value-added tax, sales tax on luxury goods, international tax, customs and excises, as well as carbon tax. Table 4.1 summarizes the types of taxes in Indonesia along with their regulatory basis and rates.

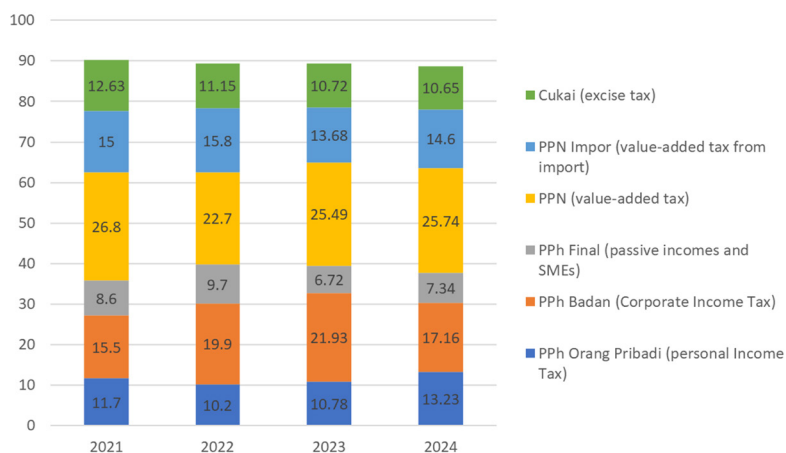
Table 4.1. Types of Taxes in Indonesia

Types of Tax	Legal Base	Rate
Personal Income Tax	Regulation No. 36 of 2008 on Income Tax with some changes through the Law on Tax Regulation Harmonization and Job Creation Law	<p>Non-Final</p> <ul style="list-style-type: none"> 5% - 35% from Taxable Income up to IDR5 billion. <p>Final</p> <ul style="list-style-type: none"> Varies between 0%-25% from gross circulation depends on passive income which is the object of tax. 0,5% from gross circulation for individuals who run business with turnover less than IDR4,8 billion (MSMEs).
Corporate Income Tax	Regulation No. 36 of 2008 on Income Tax with some changes through the Law on Tax Regulation Harmonization and Job Creation Law	<ul style="list-style-type: none"> 22% from taxable income Limited liability companies listed on the Indonesian stock exchange with a minimum of 40%, are entitled to lower income tax rate of 3%. 50% income tax reduction from 22% can be submitted for entities with gross turnover not exceeding IDR50 billion.

Value-Added Tax	Regulation No. 42 of 2009 on VAT with some changes through the Law on Tax Regulation Harmonization	<ul style="list-style-type: none"> • 11% from Taxable Goods or Taxable Services. • 0% for BKP and JKP export.
Sales Tax on Luxury Good)	Regulation No. 42 of 2009 on VAT with some changes through the Law on Tax Regulation Harmonization	<ul style="list-style-type: none"> • 10% - 95% for luxury motor vehicles. • 20% - 75% for goods other than luxury motor vehicles
International tax)	Regulation No. 36 of 2008 on Income Tax with some changes through the Law on Tax Regulation Harmonization and Job Creation Law	20% from gross income if the taxpayer does not receive P3B benefits.
Customs and Excises	Custom Law (Law No. 17 of 2006)	Varies by commodity type.
Carbon Tax	The Law on Tax Regulation Harmonization (Regulation No. 7 of 2021)	The minimum carbon tax rate is set at IDR 30 per kilogram of CO ₂ e and will be adjusted over time to be equal to or higher than the carbon price in the carbon market.

Based on the types of central taxes collected in Indonesia, the largest contributions to total tax revenue include: corporate income tax, value-added tax (VAT), personal income tax, excise tax, and final income tax, which is intended for passive income and MSMEs (passive income and SMEs). The highest contribution to tax revenue comes from domestic Value Added Tax which reached 25.74%, followed by Corporate Income Tax, reaching 17.16% in 2024.

Graphic 4.4. Revenue Contribution by Tax in Indonesia, 2021- 2024



Source: MoF, various years.

4.1.2. Indonesia's Tax Reform Strategy

Tax reform in Indonesia has taken place in four main waves since 1983 to the present. The first wave (1983–2000) was marked by fundamental changes through the implementation of a self-assessment system, simplification of tax types, and the formulation of a vision, mission, and blueprint for tax reform. The second wave (2002–2008) focused on modernizing tax administration and updating tax regulations to strengthen the tax legal system. Furthermore, Tax Reform Volume II (2009–2016) emphasized strengthening internal controls to increase accountability, and was complemented by a tax amnesty policy in 2016 to broaden the tax base. Entering Volume III (2017–present), reform is directed at consolidation and acceleration with an emphasis on digital transformation and innovation technologies, such as the implementation of the *Core Tax Administration System* (CTAS), to improve compliance and effectiveness of the tax system and the matching of ID Number and Taxpayer ID Number to strengthen the taxpayer database and improve oversight.






Table 4.2 Tax Reform and Programs in Indonesia

No	Tax Reforms	Program
1	Modern Regime Tax Reform (1983-2000)	<ul style="list-style-type: none"> • 1983 – Tax Law Reform. Transition to self-assessment system (taxpayers calculate, pay and report their taxes independently). • 1991-2000 – Tax Law Reform. Simplification of tax types to increase efficiency and transparency. • 2000-2001 – Bureaucratic Reform. Establishing a vision and mission as well as developing a blueprint as a long-term guide for tax reform.
2	Tax Reform Volume I (2002-2008)	<ul style="list-style-type: none"> • Modernization of tax administration. • Amendments to various tax laws to improve tax legal system.
3	Tax Reform Volume II (2009-2016)	<ul style="list-style-type: none"> • 2009-2014 – Tax Reform Volume II. Focus on improving internal control to strengthen oversight and accountability. • 2016 – Tax Amnesty Law. Implementation of tax amnesty policy to increase compliance and broaden tax base.
4	Tax Reform Volume III (2017-present)	<ul style="list-style-type: none"> • Consolidation, acceleration, and continuity of tax reform. • Focus on digital transformation and increased compliance through technology innovation such as Core Tax Administration System (CTAS).

Source: MoF, 2025

Various tax reforms were implemented through Harmonized Tax Law. On income tax side, support for strengthening MSMEs by setting a limit on non-taxable business gross turnover of IDR500 million and maintaining the 50% income tax discount. Furthermore, improvements of the progressivity income tax of personal income by widening the taxable income range to IDR60 million for the lowest personal income tax rate layer of 5% from the previous which was up only to IDR50 million, and adding one layer of the highest personal income tax rate of 35% for taxable income above IDR5 billion per year. Then, the tax base was expanded by implementing a tax on in-kind (fringe benefits), and maintaining the corporate income tax rate starting from the Tax Year 2022 at 22%, which was previously at 25% in 2019 and prior years.

Table 4.3. Indonesia's Personal Income Tax Rates

Taxable Income (IDR)	Rate
Up to 60.000.000	 5%
More than 60.000.000 – 250.000.000	 15%
More than 250.000.000 – 500.000.000	 25%
More than 500.000.000 – 5.000.000.000	 30%
Over 5.000.000.000	 35%

The VAT rate at 10% in Indonesia had not been changed since the VAT system was first introduced in 1984 and only changed in 2022. Only since the Law No. 7 of 2021 concerning the Harmonization of Tax Regulations, in April 2022 the VAT rate became 11% and is planned to increase to 12% which will be implemented no later than January 1, 2025. However, in the statement in the law, the increase in the VAT rate has room for adjustment in the range of 5-15%, according to economic developments and government needs.

The Indonesian government implemented a selective VAT rate adjustment policy through Minister of Finance Regulation No. 131/PMK.03/2024 in response to economic dynamics and public aspirations. Unlike the initial plan to increase the general rate to 12%, this latest policy stipulates a gradual coefficient increase system that maintains the base rate at 11% with the possibility of a maximum increase of up to 12% only for certain categories. This rate adjustment specifically applies to three main groups: (1) luxury goods Class III in accordance with Article 5A of the VAT Law, (2) certain non-primary services, and (3) cross-border digital transactions. Meanwhile, the government maintains a preferential rate of 0-1% for basic necessities and essential services to protect public purchasing power. This differentiated rate policy reflects the government's more cautious fiscal approach aimed at balancing revenue optimization with social justice and macroeconomic stability.

However, there are threats that could hamper the effectiveness of this policy. The informal sector, which is difficult to reach by the formal tax system, poses a major challenge to expanding the tax base. Political instability and inconsistent fiscal policy changes can undermine investor confidence and impact tax compliance. Although the government implemented a tax amnesty policy in 2016-2017 to improve compliance and broaden the tax base, the sustainability of its results still requires in-depth evaluation. Through international cooperation such as the *Automatic Exchange of Information* (AEOI), the government is striving to prevent cross-border tax evasion, although law implementation and enforcement remain challenging.

The Law on Harmonization of Tax Regulations (Law HPP) also includes provisions on the implementation of a carbon tax in Indonesia. However, to date, the carbon tax has not been fully implemented. The government had initially targeted implementing the carbon tax in 2022 for coal-fired power plants (CFPPs), but this was postponed due to technical issues, economic conditions, and the industry's lack of preparedness.

In addition to the Harmonized Tax Law, the government, through Presidential Regulation No. 40 of 2018, has also established a strategic agenda for reforming the national tax administration system through the Core Tax Administration System Reform Program (CTAS), one of the main components of which is the development of the *Core Tax Administration System* (Coretax), which is designed to replace the outdated and fragmented tax administration infrastructure with a modern and integrated digital platform. This system covers all tax business processes, ranging from taxpayer registration and reporting to payment processing and law enforcement.

However, the implementation of CTAS in practice has not yet been fully optimized due to several technical challenges, particularly related to the system's readiness to serve taxpayers on a large scale.

Tax incentives are also one of Indonesia's strategies to expand its tax base. At the same time, they can attract investment. Tax Holidays, Allowances, Special Economic Zones, *Free Trade Zones* (FTZ), and Foreign Tax Credits are widely used, but they have not significantly impacted the tax ratio. Furthermore, the government is strengthening its oversight against illegal excisable goods and expanding the scope of taxable objects through excise tariff policies.

Tabel 4.4. Several Tax Incentives applied in Indonesia

Types of Incentive	Forms of Incentive
Tax Holiday	Income Tax exemption for corporates for 5 to 20 years for companies operating in pioneer industries.
Tax Allowance	Income Tax Reduction of 30% from the investment amount in the form of tangible fixed assets, which is given for 6 years with 5% per year scheme.
Special Economic Zones (SEZ)	Taxpayers operating in SEZs can obtain various tax facilities to encourage investment and competitiveness in the area.
Free Trade Zones (FTZ) Incentives	Exemption from import duties, Value-Added Tax (VAT), and other taxes for business activities operating in free trade zones.

Foreign Tax Credit	Taxes paid abroad already on foreign income can be credited against taxes owed in Indonesia in the same tax year, in accordance with applicable provisions.
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Source: Ministry of Finance, 2025

Overall, the government's policy to increase the tax ratio demonstrates a comprehensive effort through administrative system reform, incentives provision, and strengthened oversight. New regulations such as Law on Job Creation and Law on Harmonization of Tax Regulations offer flexibility and clarity in tax regulations. In addition, by utilizing technology and data integration, the government has the opportunity to expand the tax base and reduce the potential for tax evasion.

The success of tax reform in Indonesia depends heavily on legal certainty and fiscal policy consistency, as well as the government's ability to build public trust through both the tax system and transparent budget spending. However, it is undeniable that improvements of the tax system in Indonesia still rely on the tariff policies. Improvements in tax administration and transparency in Indonesia remain suboptimal.

4.2 Thailand

Thailand is a country with moderate growth dynamics in terms of income within ASEAN. In 2024, Thailand's Gross Domestic Product (GDP) reached USD 526.41 billion (World Bank, 2024), with an economic growth rate of 2.5%. Although the GDP level indicates that Thailand's economy is larger than Vietnam's, Thailand's economic growth in 2024 is below the ASEAN average. In fact, Thailand's economic growth projection for 2025 shows a lower figure, namely 1.8% due to declining household consumption and a decrease in international tourism (World Bank, 2025). Based on the GDP structure, Thailand's economy is supported primarily by household consumption at 56.8% as well as private investment at 23.3%. This reflects the significant role of the domestic sector in driving economic activity.

Thailand's employment situation in 2024 shows a labor force participation rate of approximately 68%, with Bangkok holding the highest position among all regions. However, the labor market structure is still dominated by the informal sector. Data shows that 52.7% of Thailand's workforce is employed in the informal sector (NSO Thailand, 2024). In the other hand, the spatial distribution of informal employment shows significant regional disparities. In the Northeastern Thailand region records the highest proportion of informal workers, accounting for over 75% of the total workforce in the region. In contrast, Bangkok exhibits a much lower informality rate, approximately 26.5% which is consistent with the urban economic concentration and greater formal employment opportunities (Statista, 2025).

As on fiscal wise, Thailand's total revenue is estimated to reach approximately USD 115.2 billion (THB 3.726 trillion), with tax revenues still dominating at USD 67.6 billion, while non-tax revenues are estimated at around USD 14.9 billion (CEIC, 2023; OECD, 2025). This structure is quite common for developing countries, which generally still rely heavily on tax revenue as their primary source of state revenue. Therefore, the tax ratio is a crucial instrument to be paid attention to, given its significant role in maintaining fiscal stability and encouraging increased state revenue capacity.

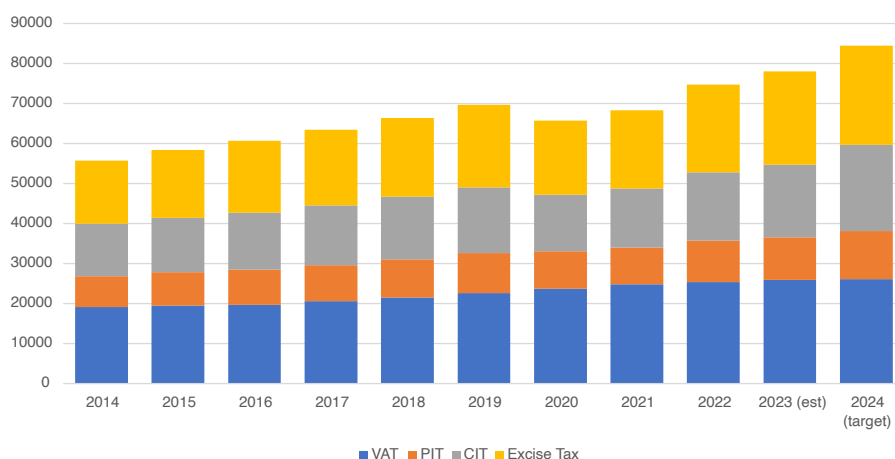
Thailand's tax-to-GDP ratio is moderate among ASEAN countries, at around 15.8% in 2023 (CEIC, 2024), but it remains well below the OECD average of 34% (OECD, 2022). This low tax ratio is due to several factors, one of which is a narrow tax base due to the large informal sector, which accounts for 40-50% of the economy (Bhattarai & Benjasak, 2021; World Bank, 2022). Furthermore, Thailand's reliance on indirect taxes, such as the regressive Value Added Tax (VAT), also contributes to the low tax ratio.

The Thai government has made various efforts to improve the tax ratio, including income tax reform by increasing the tax-free income threshold and introducing a digital tax to reach foreign companies (Revenue Department News, 2016). However, challenges such as tax evasion and low compliance of taxpayers remain major the obstacles. Improving the

tax ratio is not only crucial for strengthening state revenues but also for funding social programs that can reduce inequality and promote inclusive economic growth.

During the period 2015-2023, the Thai government showed a steady increase in tax revenue across almost all major taxes. Thailand's largest tax revenue is generated from Value-added Tax (VAT), the Thai Government recorded revenue from VAT of around USD 19.068 million in 2014, and this value increased to around USD 25.850 million in 2023, although it experienced a slight decline in 2015. Revenue from Personal Income Tax (PIT) also experienced an upward trend, from around USD 7.728 million in 2014 to around USD 10.725 million in 2023. Revenue from Corporate Income Tax (CIT) had decreased in 2015 by around USD 420 million, but then recovered and continued to increase to reach around USD 18.101 million in 2023. Meanwhile, revenue from Excise Tax experienced a consistent increase, from around USD 15.768 million in 2014 to around USD 23.317 million in 2023. Overall, this data reflects an increase in Thailand's tax capacity, despite fluctuations in certain types of taxes during that period. In general, these data indicate an increase in Thailand's tax capacity, although there have been fluctuations in certain types of taxes.

Graphic 4.5 Development of Tax Revenue by Type in Thailand, 2014 – 2024

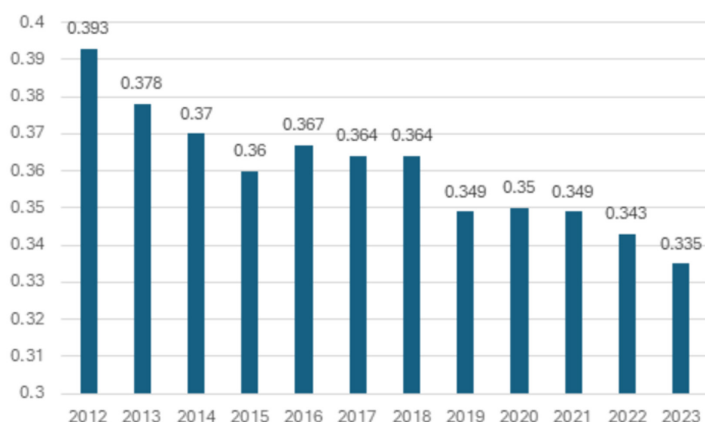


Source: statista, OECD, PWC, Revenue Department of Thailand, Excise Department Annual Reports, processed in 2025

*) 1 Bath = 0,0275 USD

Thailand's inequality has experienced a downward trend year after year. Based on Graphic 4.6, it shows Thailand's Gini ratio, which fell from 0.393 in 2012 to 0.335 in 2023, indicating improvement in income distribution in society, although inequality remains at a moderate level.

Graphic 4.6 Gini Ratio in Thailand (2012 – 2023)



Source: Worldbank, 2024 processed

4.2.1. Thailand's Tax Structure

Thailand's tax structure consists of a combination of direct and indirect taxes, which are the main sources of government revenue. Direct taxes include personal and corporate income taxes, while indirect taxes include value-added taxes and excise taxes on certain goods. Thailand's tax system consists of several main types of taxes:

a. Personal Income Tax

Personal Income Tax in Thailand is regulated by the *Revenue Code* and uses a progressive rate system ranging from 0% to 35%, depending on the taxpayer's annual income. The rate layer starts at 0% for income up to THB 150,000 and increases gradually to 35% for income above THB 5 million. Resident taxpayers are taxed on global income, while non-resident taxpayers are taxed only on income sourced from Thailand. This progressive structure aims to reflect the principle of vertical equity in the tax system.

b. Corporate Income Tax

Corporate Income Tax in Thailand has a standard rate of 20% on a company's net profit, as stipulated in the *Revenue Code of Thailand*. This rate applies to both domestic companies and foreign entities earning income from business activities in Thailand. For small businesses with paid-up capital not exceeding THB 5 million and annual revenue not exceeding THB 30 million are eligible for reduced progressive rates of 0 percent, 15 percent, and 20 percent based on specific tariff provisions.

c. Value-Added Tax (VAT)

Value-Added Tax (VAT) is levied on goods and services consumed in Thailand at a standard rate of 10% under the *Value Added Tax Act*. However, since the fiscal policy is to maintain purchasing power and the business climate, the effective rate has been reduced to 7% until

September 30, 2025, with the possibility of extension. Exported goods and services are subject to a 0% tariff, while a number of essential goods and certain public services are exempt.

d. Special Tax and Excise Tax

Special taxes and excise taxes are imposed on certain goods considered luxuries or hazardous to health and the environment, such as alcoholic beverages, tobacco, and petroleum products. The rates vary by product type and are stipulated in the Excise Tax Act. The primary purpose of these taxes is not only to increase state revenue but also to internalize the negative externalities of consuming these goods, thus serving both as a social and fiscal control instrument.

e. Stamp Duty

Stamp duty is regulated by the Stamp Duty Act and is levied on certain legal documents and transactions. The rate depends on the type of document, for example, 0.1% for share transfers, 0.05% for loan agreements, and 0.1% for service contracts. Stamp duty serves as a legal means of validating legal transactions and as a source of additional government revenue (KPMG, 2024).

f. Withholding Tax (WHT)

Withholding Tax in Thailand is a tax deduction mechanism at source, as stipulated in the Revenue Code. WHT is imposed on certain payments, such as interest, royalties, dividends, and service fees, to both residents and non-residents. Rates vary: dividends to non-residents are generally 10%, while interest and royalties are 15%. Provisions may differ if a Double Taxation Treaty (DTT) applies, which provides a lower rate. While not a standalone tax, WHT is a crucial component since it ensures tax compliance and revenue collection from cross-border transactions (PwC, 2025).

g. Customs Duties (Import/Export Duties)

Import and export duties are regulated by Thailand's Customs Act and Customs Tariff Decree. Import duties vary from 0 to approximately 80% depending on the type of goods, based on the Harmonized System (HS) and ASEAN Harmonized Tariff Nomenclature (AHTN). Goods originating from partner countries in free trade agreements (such as ATIGA or RCEP) may receive preferential tariffs or exemptions. These duties contribute significantly to state revenue and also serve as a trade policy instrument.

h. Global Minimum Tax

Starting January 1, 2025, Thailand implements a Global Minimum Corporate Tax of 15% for multinational companies with global turnover exceeding EUR 750 million, in accordance with the OECD Pillar Two framework. This policy aims to prevent tax avoidance practices through excessively low incentives, by ensuring that large companies continue to pay

an effective tax rate of at minimum 15%. This top-up tax complements the domestic CIT system, so that companies whose effective rate is lower due to incentives will still be subject to additional tax until they reach the global minimum threshold.

i. Petroleum Income Tax (PITA)

Petroleum Income Tax (PITA) is a special tax regime regulated by the Petroleum Income Tax Act. Its tax subjects are international oil and gas companies operating under concessions or production-sharing contracts. The tax rate is set at 50% of net profit for concession companies and 20% of net profit for producers under a production-sharing scheme.

j. Local Taxes

Local taxes in Thailand are levied by autonomous regional authorities in 77 provinces, including Bangkok and Pattaya. Two main types of local taxes are imposed: land and building tax, and signboard tax. The basis for land and building tax is the assessed value of the land, building, or condominium unit as per the Land Code, minus any exemptions, and then multiplied by the tax rate. The maximum applicable rate ranges from 0.15% to 3% depending on the use, while the actual rate is set annually by royal decree. Local governments have the authority to set higher rates as long as they do not exceed the national maximum.

k. Inheritance Tax

Inheritance tax in Thailand applies to individuals and legal entities on inheritances in the form of property, securities, bank deposits, registered vehicles, and other financial assets stipulated by royal decree. Subjects to the tax include Thai citizens, foreigners domiciled in Thailand, and foreigners receiving assets located in Thailand, whilst legal entities subject to the tax are entities established in Thailand or controlled more than 50% by Thai citizens. The tax is only levied on inheritances exceeding 100 million Baht from each heir, with a rate of 10% or 5% for direct heirs (parents or children). Inheritance received by the testator's spouse is exempt from the tax, and payment must be made within 150 days of receipt.

Table 4.5. Types of Taxes Applied in Thailand

No	Type of Tax	Description	Tax Rate (2025)
1	Personal Income Tax (PIT)	Tax imposed on individual income, including income from abroad for foreign residents residing in Thailand.	0% - 35% based on the income bracket
2	Corporate Income Tax (CIT)	Tax levied on corporate profits. The rate is fixed but it can be vary depending on type and size of the business.	20% (general)









3	Value-Added Tax (VAT)	Consumption tax imposed on the sale of goods and services.	Standard rate is 10%, but it is being reduced to 7% until September 30, 2025 (unless extended)
4	Excise Tax	Tax imposed to certain goods such as alcohol, tobacco and petroleum products.	Varies by product
5	Special Business Tax	Tax imposed on certain business transactions such as property transactions.	Varies by transaction
6	Stamp Duty	Tax imposed on certain legal documents and transactions.	Varies by document
7	Withholding Tax (WHT)	A deduction mechanism at the source for certain payments (interest, dividends, royalties, service fees). Applies for both residents and non-residents; rate can be lower with <i>Double Tax Treaty</i> .	10% (non-resident dividends); 15% (interest, royalties)
8	Customs Duties	Import and Export duties are determined based on HS/AHTN. High rates apply to certain products, while goods from FTA partners receive preferential rates.	0% – 80% depending on the product
9	Global Minimum Tax	Additional tax to ensure companies with global turnover > EUR750 million pay and effective tax rate of at least 15%. Effective per January 1, 2025, in line with OECD Pillar Two framework.	15% (minimum effective for MNC)
10	Petroleum Income Tax (PITA)	Special regime for oil and gas companies. Applies to concession holders and producers of <i>production sharing</i> . Exempt from CIT if already pay PITA.	50% on net profit (concession); 20% on net profit (PSCs)
11	Local Tax	Collected by local governments, primary <i>land and building tax</i> as well as <i>signboard tax</i> . The tax base is the assessed value of land/building, with certain deduction.	0.15% – 3% according to the purpose and value of the asset
12	Inheritance Tax	Subject to inheritances exceeding THB 100 million from each heir, applies to certain individuals and legal entities. Spouse are exempt.	10% general; 5% for direct heirs (parents/ child(ren))

Source: *Thailandsimple*, PWC, KPMG, Global VAT Compliance, Thailand Excise Department 2024

Thailand’s tax administration is managed by the Revenue Department under the Ministry of Finance. In 2024, Thailand implemented significant changes to its tax laws, including the introduction of a global minimum tax of 15% for multinational companies with global annual revenues exceeding EUR750 million, in line with OECD recommendations. Thailand’s tax reforms were implemented in December 2024 through *Emergency Decree on Top-Up Tax B.E. 2567*. In addition, Thailand has announced plans to introduce a carbon tax as part of its fiscal reform agenda to enhance tax efficiency while supporting environmental sustainability. Thailand continues to implement reform and adjustment to its tax system to improve tax efficiency, compliance, and contribution to the national economy.

Expansion of tax base in Thailand is implemented by incorporating digital services into the *Value Added Tax (VAT)* framework. Starting September 1, 2021, non-resident e-service providers are required to register for VAT if their income from non-registered consumers in Thailand exceeds THB1,8 million per year, with registration obligation within 30 days after reaching the threshold. This policy emphasizes broadening the tax base rather than raising rates, allowing for the capture of potential revenue from digital transactions without significantly distorting domestic consumption.

Table 4.6. PIT Rates in Thailand

Income Range (THB)	Rate(%)
0 – 150,000	 0%
150,001 – 300,000	 5%
300,001 – 500,000	 10%
500,001 – 750,000	 15%
750,001 – 1,000,000	 20%
1,000,001 – 2,000,000	 25%
2,000,001 – 5,000,000	 30%
Over 5,000,000	 35%

Source: thailandsimple, 2024

Personal income tax (PIT) revenue in Thailand is relatively low, contributing only around 2 percent of GDP—significantly below the OECD average of 8.2 percent (OECD, 2025). This low contribution is influenced by two main factors, namely incentive policies in the form of



various tax cuts that reduce the revenue base and the high level of informality of dominant workforce. This condition shows that even though PIT is implemented with a progressive rate. Thailand uses a progressive tariff structure consisting of eight income levels, starting from a rate of 0% for annual income below THB 150,000 to a maximum rate of 35% for income above THB 5,000.000 per year. Tax revenue to Thailand's Gross Domestic Product (GDP) is around 16% to 17%, this indicates that the PIT's contribution to total revenue is not yet optimal.

4.2.2. Thailand's Tax Reform Strategy

Thailand has a long history of tax reforms since the 1990s. Some of Thailand's major tax reforms according to Sujjapongse (2005) include:

1. The introduction of Value-Added Tax (VAT)

A significant milestone in Thailand's tax reform history was the introduction of the VAT in 1992, replacing the business tax. Through this policy a number of commodities previously subject to high tariffs under the business tax regime, such as cars, electronic equipment, perfumes, and cosmetics, were shifted to the VAT scheme which had a standard rate and higher excise duties. This maintained the overall tax burden at a similar level to the previous one.

2. Comprehensive Reform of the Tax Structure

Prior to the reforms, Thailand's tax structure tended to be very high, for example personal income tax rates up to 55%, business tax rates reaching 50%, while corporate income tax at a flat rate of 30% for all businesses. Following the reforms, tax rates were significantly reduced to stimulate economic activity and also align with the global trend of lower tax rates. In addition, tax instruments began to be utilized as sectoral policies, such as incentives for small and medium enterprises (SMEs) as well as the companies listed in the stock exchange.

3. Reformasi Struktur Tarif Kepabeanan

In the customs sector, Thailand has rationalized rates by reducing the range of import duties and simplifying the structure into three main layers aimed at supporting the production process:

- a. 1% for raw materials and inputs that are not produced domestically;
- b. 5% for semi-finished goods;
- c. 10% untuk barang jadi.

Currently Thailand has implemented a series of reforms through the digitalization of its tax system, including the implementation of *e-filing*, *e-payments*, and the use of

artificial intelligence in the audit process. These innovations aim to improve tax collection efficiency, reduce compliance costs, and expand taxpayer reach. The PIT reform since 2016 also included an increase in the non-taxable income threshold as a measure to stimulate consumption and reduce inequality. Although this reform reduced PIT revenue by approximately 5.5% annually, state revenues have remained relatively stable thanks to contributions from indirect taxes such as value-added tax and labor tax. However, strengthening administrative and institutional aspects remains necessary for the effective and comprehensive implementation of progressive tax policies. Ongoing reforms, including data integration between agencies, the application of technology for oversight purposes, and public education on tax obligations, will be key to improving compliance and supporting long-term fiscal sustainability.

However, significant challenges remain, particularly in terms of low voluntary compliance among high-income individuals as well as the lack of optimal integration of cross-agency data systems. The lack of connectivity between tax databases and income data from other sectors limits the effectiveness of compliance monitoring and enforcement. Therefore, strengthening risk-based oversight and enhancing institutional capacity are crucial to support further reforms. The heavy reliance on indirect taxes also highlights the need to increase the contribution of direct taxes to create a fairer and more balanced tax system.

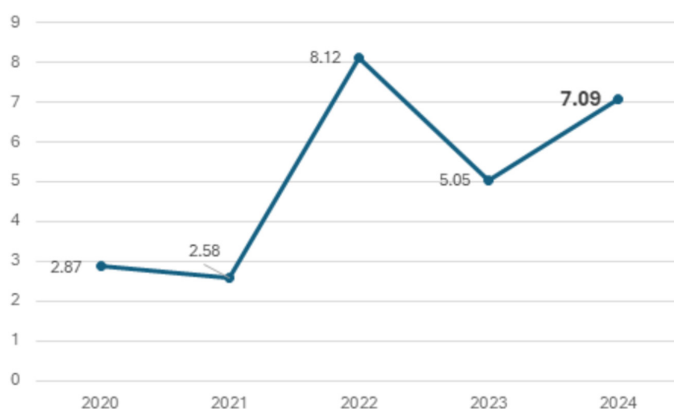
Furthermore, the OECD (2025) explains that Thailand's tax system is not *buoyant* since tax revenue growth is not in line with economic growth. Between 2012 and 2022 time period, GDP grew by an average of 3,5 percent per year, while tax revenue was only 2,8 percent, resulting in a declining tax-to-GDP ratio. Only indirect taxes such as VAT, import duties, and services taxes are relatively buoyant, whereas the PIT and CIT are unable to function optimally due to various exemptions, deductions, and a fragile tax base. This situation suggests that the provision of broad fiscal incentives and the limited effectiveness of tax system enforcement risk weakening the link between economic growth and increased tax revenue in Thailand.

4.3 Vietnam

Vietnam is one of the developing countries in Southeast Asia that has shown quite progressive economic growth. Vietnam's Gross Domestic Product (GDP) in 2024 was recorded at USD 476.39 billion with economic growth of 7.09% (Vietnam Briefing, 2025). The country's GDP per capita reached USD 4,717.29 in the same year. Vietnam's economic structure is dominated by consumption, with consumption contributing 53.9% to GDP and investment 30.6% in 2024. Furthermore, on the production side, the services sector (49.46%) and the construction industry (45.17%) dominate, while *agroforestry and fishery* only contribute 5.7% (Vietnam GSO, 2024).

Over the past five years, Vietnam has experienced fluctuations influenced by various internal and external factors. In 2020, Vietnam's economic growth slowed to 2.87% due to the impact of the global COVID-19 pandemic. However, the country managed to recover quickly, recording economic growth of 8.12% in 2022, one of the highest in Southeast Asia. In 2023, Vietnam's economic growth was estimated at 5.05%, although lower than the previous year, it still reflects strong economic resilience amidst global challenges. Sectors that contribute significantly to this growth include manufacturing industry, information technology, and tourism.

Graphic 4.7 Vietnam's GDP Growth in the Last Five Years



Source: General Statistics Office of Vietnam (GSO), 2025

The agriculture, forestry, and fisheries sector has experienced a decline in its contribution to Vietnam's GDP, from 15.22% in 2013 to 11.96% in 2023, although it remains the key sectors in exporting of commodities such as rice, coffee, and fishery products. This decline in relative contribution reflects the structural shift of the Vietnamese economy toward industrialization and higher-value-added services. In fact, the agricultural sector remains a

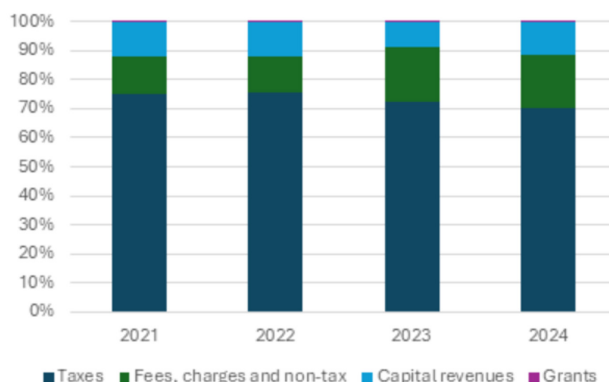
source of livelihood for a large portion of the rural population and contributes significantly to national food security (Vietnam Ministry of Agriculture and Rural Development, 2023).

The growth of Vietnam's industrial sector is supported by a significant increase in foreign direct investment (FDI), particularly in export-oriented manufacturing. Data from Vietnam's Ministry of Planning and Investment show that between 2013 and 2023, Vietnam attracted over USD 200 billion in FDI, with the majority going to electronics, textiles, and automotive manufacturing (Ministry of Planning and Investment, 2023). In parallel, the information and digital technology sector also show rapid growth, driven by the increasing adoption of e-commerce and digital financial services. According to the Vietnam E-Commerce Association (2024), Vietnam's e-commerce market grew by an average of 25% annually between 2018 and 2023, making it one of the fastest-growing markets in Southeast Asia.

In terms of employment, 61,5% of the population works in rural areas, while 38,5% in urban areas. The service sector absorbs the largest workforce at 40,09%, however the informality rate remains high at 63,6%. This pattern demonstrates the contradiction between the modernization of economic structure and the characteristics of labor market, which is still dominated by informal employment. The informality is greater in rural areas (74,1%) than in urban areas (49,2%) (NSO Vietnam, 2025), which has implications on the contribution limitation of labor toward the formal tax base.

On the fiscal side, Vietnam's total state budget revenue in 2024 was recorded at VND1.809,65 billion (approximately USD 68,57 billion), a 16.2% increase compared to the previous year and exceeding the annual target of 119.8% (MoF Vietnam, 2025). This revenue performance demonstrates a significant expansion of the country's fiscal capacity over the past year. Tax revenue components remain dominated by tax of USD 54.38 billion (VND 1,434.87 billion), while non-tax revenues contribute USD 14.2 billion (VND 374.78 billion), hence Vietnam's fiscal revenue structure remains dependent on the tax base (MoF Vietnam, 2025).

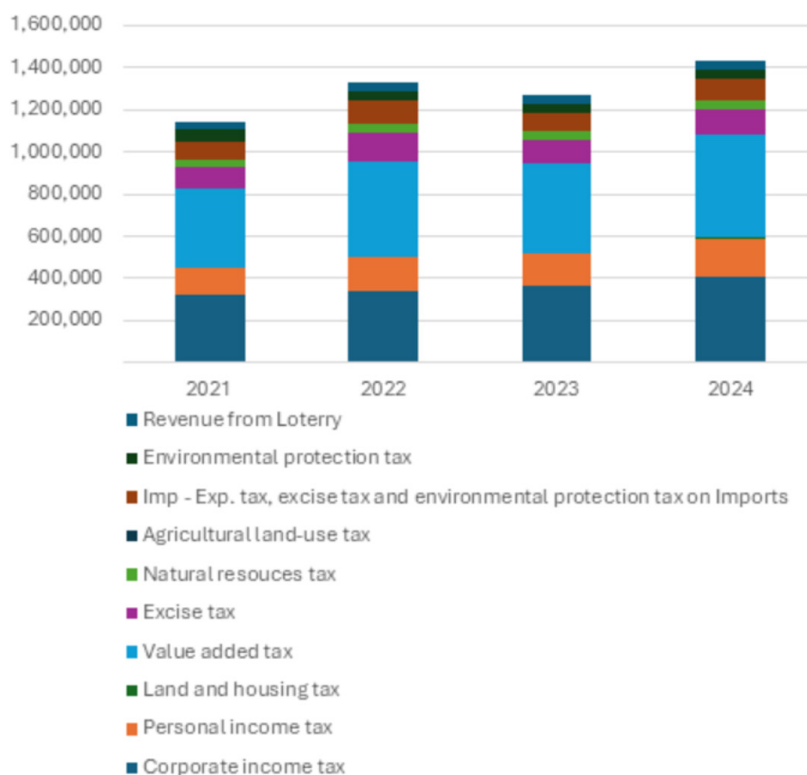
Graphic 4.8 Vietnam Government Revenue Structure 2021 – 2024



Source: Ministry of Finance 2021 – 2024

Vietnam's state revenue remains to be dominated by taxes as the primary fiscal source. In 2024, approximately 79.29% of total state revenue derived from taxes, with the largest contribution coming from Value Added Tax (VAT) at 34.08%. The graph 4.9 shows an increasing trend in the VAT contribution to total tax revenue, from 31.83% in 2021 to 34.08% in 2024, representing an increase of approximately 2.24 percentage points over four-year time period. This situation underscores the role of VAT as the backbone of Vietnam's tax system as well as illustrates the country's heavy reliance on consumption tax instruments. While tax revenue remains a significant dominant factor, Vietnam's state revenue structure shows a shift toward increasing non-tax contributions. According to graphic 4.8 non-tax revenue accounted for 14.4% of total revenue in 2021, then increased to 20.7% in 2024. This growth reflects an increase in revenue sources other than taxes.

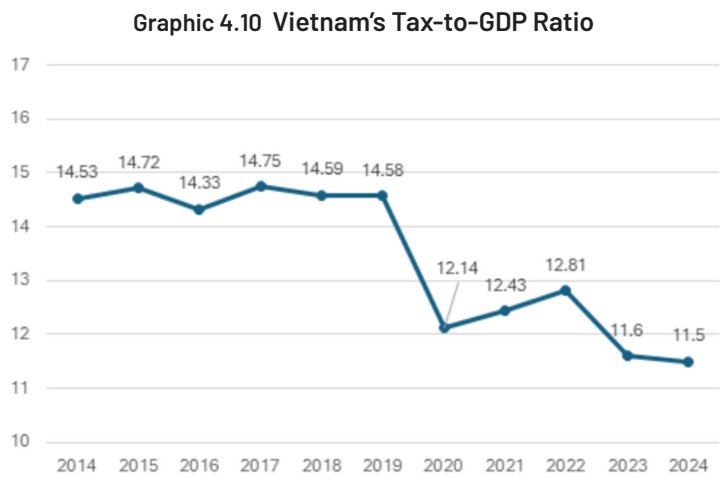
Graphic 4.9 Vietnam's Tax Revenue Structure 2021 – 2024



Source: Ministry of Finance Vietnam, 2021 – 2024

On the other hand, despite economic growth and increasing state revenues, Vietnam's tax ratio has actually experienced a significant downward trend over the past decade. From 2014 to 2019, the tax ratio was relatively stable at around 14.7% of GDP; however, since 2020, it has declined sharply to around 12.1% and again to 11.5% in 2024. The decline

coincided with the COVID-19 pandemic, which shifted the economic structure of society, including an expanding of the informal sector proportion and a decrease of tax compliance in several sectors.



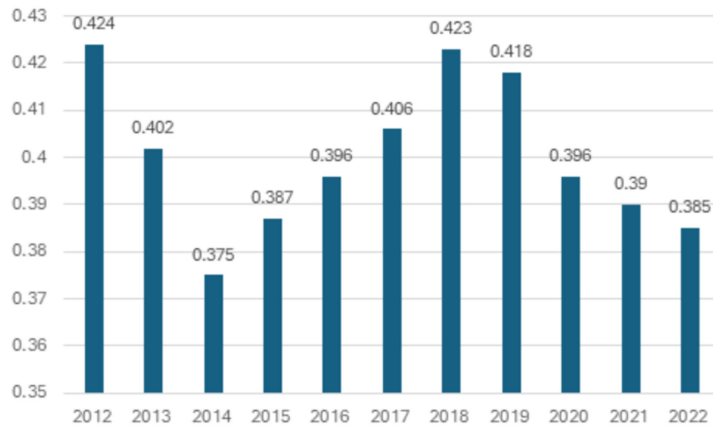
Source: CEIC, 2025

The declining tax ratio phenomenon amid Vietnam’s relatively progressive GDP growth indicates an imbalance between national economic capacity and the country’s fiscal capacity to mobilize revenue. Although nominal tax revenues continue to increase, their proportion of GDP has declined, highlighting the tax system’s limitations in capturing economic potential. The sharpest decline occurred in 2020, when the tax ratio plummeted significantly due to the COVID-19 pandemic, which shifted the economic structure and depressed the formal tax base, thus reducing the contribution of revenues to GDP.

Progressive economic inequality in Vietnam has fluctuated over the past decade, with the Gini coefficient being a key indicator reflecting the dynamics of income distribution in the country. Data from the General Statistics Office (GSO) of Vietnam and the World Bank show that Vietnam’s Gini coefficient moved from 0.424 in 2012 to 0.375 in 2014, then gradually increased to 0.423 in 2018, before declining again to 0.385 in 2022 (World Bank, 2023). This trend illustrates that although Vietnam has achieved impressive economic growth averaging 6.5% per year during this period, income distribution remains a significant challenge for policymakers. The fluctuations in the Gini coefficient are influenced by several factors, including rapid urbanization, the rise of export-oriented manufacturing, and persistent disparities between urban and rural regions.



Graphic 4.11 Vietnam's Gini Coefficient



Source: World Bank (2023) dan General Statistics Office of Vietnam (2023)

Vietnam's tax system, including its progressive Personal Income Tax (PIT) rate structure, is one of the fiscal policy instruments implemented to address inequality. However, according to analysis by the Vietnam Institute for Economic and Policy Research (2023), the effectiveness of PIT in reducing inequality remains limited due to several structural factors. First, the relatively narrow tax base, with only about 20% of the workforce formally paying PIT, limits the redistributive impact of the progressive tax system. Second, the high reliance on indirect taxes such as VAT, which are inherently less progressive, reduces the overall redistributive effect of the tax system. Third, although the top tax rate is 35%, tax breaks and exemptions available to high-income groups often reduce the effective rate paid. Oxfam Vietnam (2022) notes that to more effectively address inequality, tax reform needs to be accompanied by increased targeted social spending, expanded social safety net coverage, and greater investment in education and health in disadvantaged areas.

4.3.1. Vietnam Tax Structure

Vietnam has a tax system that distinguishes between passive and active income with different tax rates. Active income from employment or business is subject to a progressive tax rate between 5% and 35%, while passive income from investments is taxed at a lower rate between 0,1% and 20% to encourage investment and economic growth.

Types of Active Income Tax

1. Value-Added Tax (VAT)

The Value-Added Tax (VAT) applies to the consumption of goods and services in Vietnam, as well as imports, with a standard rate of 10%, a preferential rate of 5%, and 0% for exports (Law on VAT No. 13/2008/QH12). The subject is the end consumer, although the levy is imposed at the producer/distributor level. Since 2022, the government has implemented a policy of reducing the tariff from 10% to 8% for most goods and services, and this policy has been extended until the end of 2026 (National Assembly Resolution 43/2022/QH15) as a post-pandemic economic stimulus.

2. Personal Income Tax (PIT)

The Personal Income Tax (PIT) is levied on global income at a progressive rate of 5% to 35% in accordance with *Law on Personal Income Tax No. 04/2007/QH12* and its amendments, while non-residents are subject to a flat rate of 20% on income sourced from Vietnam. Non-employment income such as dividends, royalties, and capital gains are subject to a lower final rate (generally 5%). Recent reforms in the *Draft PIT Reform 2025* propose simplifying the tariff layers and adjusting the tax-free threshold to accommodate inflation and the development of digital economy.

3. Corporate Income Tax (CIT)

The Corporate Income Tax (CIT) in Vietnam is levied on the net profits of domestic companies and foreign entities operating in Vietnam, with a general rate of 20% as stipulated in *Law on Corporate Income Tax No. 14/2008/QH12* and its amendments. The latest tax reform through Law No. 67/2025/QH15 which came in effect in October 2025 introduces a preferential rate of 15% for micro enterprises (turnover ≤ VND3 billion) and 17% for small enterprises (turnover between VND 3 billion to VND 50 billion), making it more progressive in encouraging SMEs.

4. Foreign Contractor Tax (FCT)

The Foreign Contractor Tax applies to foreign companies earning income from contracts for goods, services, or technology transfer in Vietnam, even without a permanent business establishment. According to *Circular No. 103/2014/TT-BTC*, the FCT consists of a combination of VAT (generally 2-5%) and CIT or PIT (2-10%, depending on the contract type). This tax serves as a withholding mechanism to ensure fiscal compliance for foreign entities operating across borders.

5. Special Consumption Tax (SCT)

The Special Consumption Tax is applied to certain goods and services considered luxurious or with negative impacts, such as alcoholic beverages, cigarettes, motor vehicles, and entertainment, according to *Law on Special Consumption Tax No. 27/2008/QH12*. The SCT rate varies from 10% to over 60% depending on the type of goods. A key reform through

Resolution No. 28/2025/QH15 stipulates a gradual increase in the alcohol tax from 65% to 90% by 2031, with the aim of controlling consumption and increasing state revenue.

6. Business License Tax (BLT)

The Business License Tax (BLT) is a fixed annual levy that all business entities in Vietnam, including branches and representative offices, must pay. According to Decree No. 139/2016/ND-CP, the tax ranges from VND 1 million to VND 3 million per year, determined by the company's registered capital.

7. Natural Resource Tax

The Natural Resource Tax (NRT) is levied on the exploitation of resources such as minerals, oil and gas, forests, water, and marine products, under Law on Natural Resources Tax No. 45/2009/QH12. The rates vary by commodity, for example, 7–20% for coal and up to 35% for metallic minerals. This tax is designed to internalize environmental costs and ensure fiscal revenue from natural resource exploitation.

8. Import & Export Duties (Customs Duties)

The Import and export duties are imposed on imported or exported goods in accordance with Law on Export and Import Duties No. 107/2016/QH13. Tariffs depend on the classification of goods according to the Harmonized System (HS Code) and Vietnam's international trade commitments (such as the ASEAN Trade in Goods Agreement/ATIGA and the WTO). Import duty tariff reforms continue in line with regional economic integration, resulting in lower average tariffs, particularly for products within the ASEAN region.

Table 4.7 Summary of Active Taxes in Vietnam/Overview of Active Tax Types in Vietnam

Type of Tax	Main Rate	Legal Base	Tax Subject
Corporate Income Tax (CIT)	20% standard; 15% (micro enterprises, turnover ≤ VND 3 billion); 17% (micro enterprises, turnover ≤ VND 50 billion); 25–50% for oil, gas and mining	<i>Law on CIT No. 14/2008/QH12</i> ; <i>Law No. 67/2025/QH15</i> (SMEs tariff reform)	Domestic and foreign companies on net profit from business activities
Personal Income Tax (PIT)	Resident: progressive 5–35%; Non-resident: flat 20%; non-employment income: final 0.1–5%	<i>Law on PIT No. 04/2007/QH12</i> and its amendments	Resident individuals (global income) and non-resident individuals (income sourced from Vietnam)

Value-Added Tax (VAT)	10% standard; 5% certain goods/services; 0% exports; temporary tax discount of 8% until 2026	<i>Law on VAT No. 13/2008/QH12; Resolution No. 43/2022/QH15</i>	Goods and services consumed in Vietnam, including imports
Foreign Contractor Tax (FCT)	VAT 2-5% + CIT/PIT 2-10% depending on the contracts	<i>Circular No. 103/2014/TT-BTC</i>	Foreign contractors who earn income from goods/ services/ technology in Vietnam
Special Consumption Tax (SCT)	10-65% depending on the goods and services; alcohols 65% (will gradually increase up to 90% in 2031)	<i>Law on SCT No. 27/2008/QH12; Resolution No. 28/2025/QH15</i>	Special goods/ services: alcohol beverages, cigarettes, vehicles, entertainment
Business License Tax (BLT)	VND 1-3 million per annum	<i>Decree No. 139/2016/ND-CP</i>	All business entities (company, branch, representative office)
Natural Resource Tax	7-35% depending on the commodities (for example: coal 7-20%, metallic minerals up to 35%)	<i>Law on Natural Resources Tax No. 45/2009/QH12</i>	Individuals/companies exploiting natural resources
Import & Export Duties	Vary in accordance to HS Code and trade commitments; decrease for ASEAN & FTA	<i>Law on Export and Import Duties No. 107/2016/QH13</i>	Imported and exported goods according to custom tariff classification

Source: Asean Briefing, Vietnam Briefing, PwC, Acclime Vietnam 2025

Types of Passive Income Tax

1. Tax on Investment (5%)

Investment refers to the allocation of capital intended to generate returns in the form of interest, dividends, or other financial gains. In Vietnam, income derived from investments is subject to a flat tax rate of 5% per return, which applies to the following categories:

- Interest refers to the cost of borrowing calculated as a percentage of the principal amount of the loan and must be paid by the borrower within a certain period of time. The Vietnamese government sets a maximum interest rate limit of 20% per year based on Article 468 *Bộ Luật Dân sự năm 2015* (Civil Code of Vietnam 2015). If the lender applies an interest rate exceeding this limit, the excess amount is considered invalid and cannot be enforced.
- Dividends – This is the net profit paid by a company to its shareholders as a return for their investment. In Vietnam, only dividends paid in cash are subject to a 5% tax. Dividend payments are a company's way of distributing profits to its investors. These payments are usually made periodically in accordance with company policy and the decisions of the board of directors.
- Other forms of capital investment – This category includes various investment instruments other than interest and dividends, such as mutual funds, futures contracts, or other innovative forms of investment. All income from these instruments is subject to a 5% tax, except for income from government bond interest, which is specifically exempted to encourage investment in state financial instruments.

2. Tax on Capital Transfer

This tax applies to transfers of ownership in business and securities systems, with varying rates:

- Transfer of ownership in a financial company: Transfers of ownership in a financial company are taxed at 20% of net profits.. This profit is calculated using the following formula: selling price minus purchase price and reasonable costs associated with the transfer of capital. Reasonable costs include consulting fees, notary fees, administrative fees, and other officially demonstrable costs. This system ensures that tax is levied only on the actual profits earned, not the entire transaction value.
- Securities transfers: Subject to a tax of 0,1% of the total sales value per transaction, regardless of whether the transaction results in a profit or loss. This rate applies to all transactions involving the sale and purchase of shares, bonds, bills of exchange, certificates of deposit, and other types of securities. This low tax rate makes Vietnam one of the attractive countries for investing in the securities market, as it is lower than tax rates in many other countries.

3. Tax on Transfer of Real Estate (2%)

Imposed on income from:

- Transfer of land use rights and assets thereon: In Vietnam, land is owned by the state, and residents only have use rights. The transfer of use rights to land and buildings or structures erected on it is subject to a tax of 2% of the total transaction value. This includes the transfer of ownership of agricultural, industrial, and commercial land and the buildings thereon.
- Transfer of ownership or use of residential property: This includes the sale and purchase of houses, apartments, villas, or other forms of residential property. Every residential property sale and purchase transaction is subject to a 2% tax of the total transaction value, not just the profit earned. This applies to all types of residential property, regardless of size or value.
- Transfer of land or water surface lease rights: This refers to transactions in which lease rights over a plot of land or water area are transferred from one party to another. This includes land for agricultural, fishing, or other commercial activities. Such transactions are also subject to a 2% tax of the total value of the lease transfer contract.
- Other forms of real estate transfer: This includes the transfer of rights to specific properties such as market stalls, commercial space in shopping malls, warehouses, or other forms of property not specifically included in the previous categories. All types of real estate transfers are subject to the same tax of 2% of the transaction value.

4. Tax on Copyright and Commercial Franchises (5%)

This tax applies to all residents and non-residents of Vietnam who earn income from:

- Copyright of literary, artistic, musical, and other creative works: This includes income derived from licensing or selling copyrights to books, articles, paintings, sculptures, music, films, software, and other creative works. Creators or rights holders who earn income from licensing or selling copyrights are subject to a tax of 5% of the total income received.
- Commercial franchise: This covers income derived from granting rights to others to use trademarks, patents, business models, or other intellectual property. Franchisors who receive licensing fees, royalties, or other forms of compensation from franchisees are subject to a 5% tax of total income. This tax applies to both local and international franchises operating in Vietnam.
- For the case of high net worth individuals (HNWI), the management of taxes related to copyrights and franchises tends to be more complex, as they often hold multiple intellectual property rights or franchise agreements that generate income from various

sources or across multiple countries. Consequently, the calculation and reporting of their tax obligations become significantly more complicated.

5. Tax and Gifts (10%)

Subject to prizes worth more than VND 10 million for each win, including:

- **Lottery prizes:** Income earned from winning official or private lotteries is subject to a 10% tax if the value exceeds VND 10 million. This includes all types of prize draws legally conducted in Vietnam, including the national lottery and other promotional draws .
- **Sales promotion gifts:** Income received from promotional programs held by companies or organizations to promote their products or services. Gifts can be in the form of cash, goods, or other forms of appreciation. If the value of the gift exceeds VND 10 million, the recipient must pay a tax of 10% of the gift value.
- **Prizes from betting or gambling at casinos:** Income earned from winnings at casinos or other licensed gambling establishments in Vietnam. Winnings exceeding VND 10 million are subject to a 10% tax. It's important to note that illegal gambling is not legally recognized, and therefore, income from such activities is not covered by the official tax system.
- **Prizes from games and contests with prizes:** This category includes income earned from winning competitions, contests, tournaments, or similar events that offer prizes to winners. Examples include singing contests, sports competitions, skill competitions, and other similar events. Prizes worth more than VND 10 million are subject to a 10% tax.
- **Other forms of winnings:** This includes all other types of prizes not explicitly mentioned in the categories above. As long as the prize value exceeds VND10 million, the recipient must pay a tax of 10% of the prize value.

6. Tax on Inheritance and Donations (10%)

Applicable to inherited assets or donations worth a minimum of VND 10 million, including:

- **Securities:** Financial assets such as stocks, bonds, and other securities inherited or donated are subject to a tax of 10% of their market value if their value exceeds VND 10 million. The valuation of securities is usually based on the market price at the time of transfer of ownership.
- **Contributions to companies or economic organizations:** Includes ownership of shares, property rights, or other investments in companies or economic organizations that are inherited or donated. If the value of the contribution exceeds VN D10 million, the

recipient of the inheritance or gift is subject to a tax of 10% of the total value of the assets.

- Real estate: Immovable property such as land, houses, buildings, and other permanent structures that are inherited or donated. Real estate assets worth more than VND10 million that are inherited or donated are subject to a 10% tax, except in cases of transfer between close family members.
- Other assets requiring registration of ownership or use rights: These include motor vehicles, ships, aircraft, patents, trademarks, and other assets requiring official registration for ownership or usage. These assets are also subject to inheritance or gift tax of 10% if their value exceeds VND10 million.

Table 4. 8 Summary of Passive Income Tax Rates in Vietnam

Type of Income	Legal Base	Tax Rate	Remarks
Investment	<i>Personal Income Tax No. 04/2007/QH12 (amend. 2012)</i>	5%	Interest, dividends, and other forms of capital investment
Company Capital Transfer	Corporate Income Tax No. 14/2008/QH12	20%	From the difference between the selling and buying prices
Capital Transfer - Securities	PIT No. 04/2007/QH12	0,1%	From the total sales value
Real Estate Transfer	<i>PIT No. 04/2007/QH12 (Article 14); Circular 111/2013/TT-BTC</i>	2%	From the total sales value
Copyright and Commercial Franchises	<i>Law on PIT; Circular 111/2013/TT-BTC</i>	5%	Income from Intellectual Property
Gifts	<i>Law on PIT; Circular 111/2013/TT-BTC</i>	10%	For gifts worth > VND10 million
Inheritance and Donation	<i>Law on PIT; Circular 111/2013/TT-BTC</i>	10%	For asset worth > VND10 million

Source: PwC Vietnam 2025

Some tax exceptions to note:

- **Immovable assets between close family members:** Real estate inherited or donated between close family members (parent-child, grandparent-grandchild) is exempt from inheritance tax. This exemption is designed to facilitate the transfer of wealth between generations within the family without additional tax burdens. However, heirs must still pay tax on agricultural and non-agricultural land use, even though they are exempt from inheritance tax.
- **Government bond interest:** Income earned from government bond interest is exempt from investment tax. This exemption aims to encourage investment in government debt instruments, support finance government programs and national infrastructure development. This is a strategy to increase liquidity in the government bond market.
- **Double taxation treaties:** Tax rates may differ for non-resident Vietnamese individuals if a double taxation treaty exists between Vietnam and the individual's country of origin. These treaties aim to avoid double taxation and provide clarity on taxation rights between Vietnam and other countries. This is particularly relevant for income from copyrights, franchises, and other forms of intellectual property that have international implications.

The progressive Personal Income Tax (PIT) rate structure is one of the fiscal policy instruments implemented to address inequality. However, according to analysis by the Vietnam Institute for Economic and Policy Research (2023), the effectiveness of PIT in reducing inequality remains limited due to several structural factors. First, the relatively narrow tax base, with only around 20% of the workforce formally paying PIT, limits the redistributive impact of a progressive tax system. Second, the high reliance on indirect taxes such as VAT, which are inherently less progressive, reduces the overall redistributive effect of the tax system. Third, although the top tax rate is 35%, tax deductions and exemptions available to high-income groups often reduce the effective rate paid. Oxfam Vietnam (2022) notes that to more effectively address inequality, tax reform needs to be accompanied by increased targeted social spending, expanded social safety net coverage, and greater investment in education and health in disadvantaged areas.

Administrasi perpajakan Vietnam telah mengalami transformasi signifikan selama dua Vietnam's tax administration has undergone significant transformation over the past two decades, reflecting the country's efforts to build a modern, efficient tax system aligned with international standards. Since the early 2000s, Vietnam has implemented a series of comprehensive tax reforms to improve tax collection effectiveness and strengthen taxpayer compliance. These reforms are part of a broader economic development strategy aimed at supporting sustainable economic growth while ensuring sufficient revenue to finance public spending (Vietnam Ministry of Finance, 2024).

4.3.2. Vietnam Tax Reforms

There are 3 phases of tax reforms in Vietnam, namely:

1. First Phase Tax Reform (1990s): Introduction of 9 important tax regulations

During this phase, the government introduced import and export duties with 36 tariff levels, a turnover tax with 11 tariff levels (0.5% to 40%), and a special consumption tax with rates ranging from 20% to 50%. Additionally, a profit tax was imposed on both domestic and foreign companies, an agricultural land use tax, a tax on the transfer of land use rights, an ordinance-based natural resource tax (ordinance-based), an income tax on high-income earners, and a tax on land and housing (also ordinance-based).

This first phase of reform not only focused on diversifying tax types but also emphasized the establishment of a more systematic tax institution. During this period, Vietnam established the *General Department of Taxation* as the primary authority for tax administration. The tax system began to be reorganized vertically, spanning from the central to regional levels, with implementing units at provincial and district levels. This step laid the foundation for the consolidation of Vietnam's modern tax system and paved the way for subsequent reforms.

2. Second Phase of Tax Reform (1998)

The second phase of tax reform in Vietnam was marked by the introduction of Value-Added Tax (VAT) and Enterprise Income Tax (EIT), accompanied by amendments to regulations on import and export duties and a special consumption tax (*excise tax*) to ensure consistency in the tax system. In addition, changes were made to the *Ordinance on Income Tax on High-Income Earners* by raising the tax-free threshold from VND 3 million to VND 5 million, as well as tax reforms related to land use and ownership.

The implementation of VAT began in 1999 with a three-tier tariff structure, namely 0% for exported goods and services, 5% for essential goods and services, and 10% as the standard rate for other categories. Between 1999 and 2003 an additional 20% tariff was implemented. However, VAT implementation faced challenges, among the others the excessive number of exempted goods and services (26 categories) and the lack of an adequate VAT registration threshold.

The Corporate Income Tax was introduced at a standard rate of 28%. From 1999 to 2003, a differential rate applied between domestic companies (32%) and foreign-invested companies (25%). In addition, preferential rates of 10%, 15%, 20%, and 25% were available, as well as various incentives such as tax exemptions or reductions and loss compensation mechanisms. These incentives were provided for investment in underdeveloped regions, priority sectors (such as high-tech), industrial estates, and special economic zones. The second phase of reform also introduced the *Ordinance on Fees and Charges* as an additional instrument to broaden the state revenue base.








3. Third Tax Reform (2008)

Vietnam's third phase of tax reform took place between 2007 and 2010, marked by a comprehensive overhaul of key tax laws. In 2008, the government passed amendments to the Value-Added Tax (VAT) Law and the Special Consumption Tax (SCT) Law, which came into effect in 2009. The VAT amendments focused on reducing the number of exempted goods and services, expanding the scope of the 10% standard rate, and strengthening the consumption tax base. Meanwhile, the SCT reform revised the tariff structure, reviewed the reduction and exemption schemes, and established the principle of non-discrimination between domestic and imported goods.

The reforms also included the *Enterprise Income Tax* (EIT), which came into effect in 2009, with reduced rates, a narrowing of incentives coverage, and the implementation of a single regime for all economic sectors. Meanwhile, Vietnam introduced the *Personal Income Tax Law* in 2007, which substantially expanded the tax base and the number of taxpayers. Several new taxes were also introduced, including the *Law on Natural Resource Tax* (2009), the *Law on Land and Housing Tax* (2010), and the *Law on Environmental Protection Tax* (2010). Furthermore, the tax on the transfer of land use rights was abolished to simplify the tax structure. This third phase of reform emphasized not only legislative aspects but also managerial ones, with modernization of tax administration through organizational strengthening, capacity building of apparatus, adoption of technology, implementation of self-assessment mechanisms, as well as tax education and information dissemination programs.

Vietnam's tax administration structure is organized within a three-tier hierarchical framework that mirrors the country's governmental structure. The General Department of Taxation (GDT), under the Ministry of Finance, serves as the highest authority coordinating tax administration at the national, provincial, and district/city levels. This structure allows for the implementation of uniform tax policies across the country while taking into account diverse local economic conditions. The GDT is responsible for administering various taxes, including Corporate Income Tax (CIT), Personal Income Tax (PIT), Value-Added Tax (VAT), and Specific Consumption Tax, which collectively account for over 80% of Vietnam's total tax revenue (OECD, 2022).

Table 4.9 Tax Base in Vietnam

Income Range (in VND)	Tax Rate (%)
Up to 60 juta	 5%
More than 60 million up to 120 million	 10%
More than 120 million up to 216 million	 15%
More than 216 million up to 384 million	 20%
More than 384 million up to 624 million	 25%
More than 624 million up to 960 million	 30%
Over 960 million	 35%

Source: PwC Vietnam Tax Pocket Guide 2023

Vietnam's Personal Income Tax (PIT) system applies a progressive rate structure with seven tiers ranging from 5% to 35%, as shown in the table above. This structure is designed to reflect the principle of vertical equity in taxation, where individuals with higher incomes are subject to higher tax rates. According to the Vietnam Tax Authority (2023), this system applies to Vietnamese residents with a taxable annual income after deducting a personal tax deduction of VND 11 million per month and a dependent's deduction of VND4,4 million per dependent per month. Foreign residents working in Vietnam are also subject to the same rate structure, albeit with some special provisions depending on applicable double taxation avoidance agreements.

The implementation of the PIT system in Vietnam has seen several improvements in administration and compliance since the 2009 tax reform. According to a study by the Vietnam Finance Research Institute (2024), the compliance rate of individual taxpayers increased from 57% in 2015 to 76% in 2023, largely due to the digitization of tax reporting systems and growing public awareness of tax obligations. However, challenges remain in terms of limited coverage due to the still-large informal economy, as well as the need to periodically adjust taxable income thresholds and reduce taxpayers' income to address inflation. Deloitte Vietnam (2023) notes that the Vietnamese tax authorities are considering revising the PIT structure to better balance fairness and administrative efficiency.

Digitalization is a key component in the modernization of Vietnam's tax administration, leveraging technology to improve the efficiency and transparency of tax processes. Vietnam has successfully implemented a comprehensive e-filing and e-payment system, which has increased tax collection efficiency by 22% between 2018 and 2022 (World Bank, 2023). The e-Tax system implemented by Vietnam's tax authorities has proven effective in increasing taxpayer compliance from 65% in 2015 to 87% in 2022, as reported by Deloitte (2023). This success demonstrates how the adoption of digital technology can significantly improve tax administration in developing countries.

The legal framework for tax administration in Vietnam continues to be updated to address evolving economic and tax challenges. Tax Administration Law No. 38/2019/QH14, effective from July 2020, introduced a range of progressive provisions, including tax risk management, tax base protection, and the handling of electronic transactions (PwC Vietnam, 2023). Furthermore, Decree No. 206/2022/ND-CP regulates tax management for e-commerce and the digital economy, reflecting Vietnam's awareness of the importance of capturing economic value from rapidly growing digital activities (EY Global Tax Alert, 2023).

Tax compliance enforcement in Vietnam is characterized by a risk-based approach that utilizes data analytics to identify and address non-compliance. Vietnam's tax authorities have successfully improved audit efficiency by 30% compared to traditional methods through the implementation of a risk-based tax audit system (IMF, 2024). This approach, coupled with efforts to improve taxpayer education and support small and medium-sized businesses, creates the balance between facilitation and enforcement necessary for an effective tax system (Vietnam Tax Review, 2023).

In the context of international taxation, Vietnam demonstrates its commitment to adopting global best practices and participating in multilateral tax frameworks. Vietnam has signed over 80 double taxation avoidance agreements and is committed to implementing the OECD's Base Erosion and Profit Shifting (BEPS) standards (KPMG Vietnam, 2023). These measures not only help prevent international tax avoidance and evasion but also provide greater tax certainty for foreign investors, which is crucial for attracting foreign direct investment and supporting Vietnam's international economic integration.

Despite the progress made, Vietnam's tax administration still faces several challenges that need to be addressed to further improve its effectiveness. Key challenges include limited administrative capacity at the local level, a large informal economy, and difficulties in accurately valuing property and intangible assets (Asian Development Bank, 2024). Addressing these challenges will require continued investment in capacity building, simplified administrative procedures, and strengthening of the legal and institutional framework to ensure a more efficient, transparent, and equitable tax system.

Table 4.10 Economic and Fiscal Summary of Indonesia, Thailand, and Vietnam

Indicator	Indonesia	Thailand	Vietnam
GDP	USD 1,396.3 billion	USD 526.4 billion	USD 476.39 billion
GDP Per Capita	USD 4,925.43	USD 7,345	USD 4,717.29
GDP Growth	5.03%	2.5%	7.09%
GDP Structure	consumption (53%), investment (30.86%),	consumption (56.8%), investment (23.3%),	consumption (53.9%), investment (30.6%)
Employment Structure	57.95% informal workforce sector	52.7% informal workforce sector	63.6% informal workforce sector
State Revenue	USD 170 billion	USD 115.2 billion	USD 68.57 billion
Tax Revenue	USD 140.71 billion (82.4%)	USD 67.6 billion (58.68%)	USD 54.38 billion (79.29%)
Tax Ratio	10.08%	15.4%	11.5%

4.4. Discussion

A comparison of macroeconomic and fiscal indicators for Indonesia, Thailand, and Vietnam reveals similar patterns but also reveals fundamental differences that have implications for the effectiveness of taxation in each country.

In terms of economic capacity, Indonesia holds the position of the country with the largest GDP, at USD 1,396.3 billion, more than double that of Thailand (USD 526.4 billion) and Vietnam (USD 476.39 billion). However, Indonesia's superior economic size is not reflected in its per capita GDP, which only reaches USD 4,925, lower than that of Thailand and Vietnam. This fact emphasizes that Indonesia's large GDP is still spread across a very large population, making the challenge of income redistribution becomes even more real.

Vietnam recorded the highest growth in 2024, at 7.09%, higher than Indonesia (5.03%) and Thailand (2.5%). Vietnam's high growth demonstrates its economic resilience post-pandemic. However, there is a downward trend in the tax ratio, which is expected to reach 11.5% in 2024. This indicates that Vietnam's tax revenue growth has not kept pace with its high economic growth.

The economic structure in all three countries is supported by household consumption, with a contribution exceeding 50%. This pattern indicates that public purchasing power is the primary driver of the economy. However, in a fiscal context, this consumption-based structure encourages governments to rely on Value-Added Tax as a relatively stable source of revenue. This is demonstrated by the dominant contribution of VAT to total tax revenue in all three countries. In Indonesia, VAT contributed 25.74% of total taxes. VAT contributions were much larger in Thailand (38%) and Vietnam (34.08%) in 2024. Interestingly, the policy strategies implemented in the three countries regarding VAT are quite contrasting. In 2022, Indonesia implemented a VAT rate of 11% with a planned increase to 12% in 2025. Conversely, Vietnam implemented a temporary VAT rate of 8% as a post-pandemic stimulus until 2026. Thailand has achieved relatively high and stable VAT revenue year after year, despite a VAT rate of only 7%. In contrast, Indonesia and Vietnam, with higher tariffs, face suboptimal revenues relative to GDP. This phenomenon demonstrates that increasing tax revenues does not solely depend on tariff increases.

Corporate Income Tax (CIT) contributions in Indonesia, Thailand, and Vietnam show a similar pattern. CIT contributions are smaller than VAT. In 2024, Indonesia's CIT only contributed around 17% of total tax revenue, a decrease from the previous year. In Vietnam, CIT revenue was relatively higher, at 28,21%. Meanwhile, Thailand's CIT contribution was around 23,21% in 2023. According to Prakarsa's (2024) report, all three countries offer various incentives such as *tax holidays*, *tax allowances*, and preferential rates for strategic sectors. Indonesia, for example, despite implementing a higher rate (22%), is aggressively offering *tax holidays* up to 100% for a 20-year period to encourage significant investment in priority sectors, as well as *tax allowances* for certain industries. This contributes to suboptimal CIT revenue contributions.

Thailand maintains a low CIT rate of 20%, hence reducing its reliance on direct incentives. Starting in 2025, Thailand will also adopt a 15% *Global Minimum Tax*, in line with the OECD/G20 agreement for multinational corporations. This policy is intended to curb *profit-shifting* practices by multinational corporations and reduce the need for costly fiscal incentives. Vietnam, on the other hand, still relies heavily on incentive regimes to attract foreign investment, particularly in special economic zones and the technology industry. However, tax incentives have not been empirically proven to directly increase investment. Research by Zwick and Mahon (2017) on *accelerated depreciation* in the United States in 2002–2003 and 2008–2010, and Yagan (2015) on the dividend tax cut in 2002, show that these incentives neither significantly increased real investment nor created jobs. Similar results were found by Alstadsæter, Jacob, and Michaely (2017) in Sweden indicating no aggregate impact, despite differences across firms. A recent study by Bach et al. (2024) in France showed a high response to dividends but virtually no impact on investment. A thorough evaluation of tax incentives is key to ensuring their effectiveness in increasing investment and ensuring they do not sacrifice too much potential tax revenue.

Another crucial issue is the high level of informality in the workforce. As many as 57.95% of Indonesia's workforce works in the informal sector. Vietnam recorded a higher percentage at 63.6%. Meanwhile, Thailand's informal sector is relatively lower than both countries (52.7%). High informality results in a narrow income tax base and low compliance level. This explains the lower contribution of personal tax revenue (PIC) to VAT and CIT in the three countries. This contrasts with developed countries with high levels of formality in the workforce. Countries in Western Europe, for example, have higher PIT and *social contribution* revenues than CIT. However, without strategies to reduce informality and strengthen tax administration capacity, economic growth cannot automatically translate into fiscal revenue.

4.4.1. Past Tax Reforms and Present Challenges

Tax reform in Indonesia, Thailand, and Vietnam has a long history. The first tax reform in Indonesia began in 1983 with the aim of increasing state revenues outside of oil revenues, readjusting tax regulations and improving administrative efficiency, reducing economic distortions caused by the application of tax rates, and ensuring that the public is not disadvantaged by the imposition of taxes. Adjustments to tax rates and income ranges for individual and corporate taxpayers, as well as the introduction of VAT, were crucial efforts to broaden the tax base at that time.

In Thailand, the important tax reforms occurred in 1992, when the VAT was first introduced. The 1997–1998 financial crisis prompted the Thai government to readjust the PIT, CIT, and VAT to increase purchasing power, attract investment, and foster economic growth. Meanwhile, in Vietnam, the tax reforms initiated in 1990 were implemented in an effort to promote regional and global economic integration. The tax reform strategies in the three

countries at that time significantly increased tax revenue and the tax ratio. In Indonesia, for example, before the 1983 tax reform, the tax ratio in Indonesia was only around 6% of GDP. After the reform, the tax ratio in Indonesia jumped to 7% in 1983 and 8.9% in 1989. The Thai government successfully increased its tax ratio from 15.5% in 1999 to 17.6% in 2007. Meanwhile, Vietnam's tax ratio rose significantly since the reform, peaking at 22.3% in 2010.

Country	Result	Period	Key Factor of Tax Reform
Indonesia	8% - 8,9%	1983 - 1989	Policy Design
Thailand	15,5% - 17,2%	1999 - 2019	Policy Design
Vietnam	20% - 22,3%	2009 - 2010	Administration and policy design

(Martinez-Vazquez, 2022)

According to Martinez-Vazquez, 2022, there are four political prerequisites that are key to the success of tax reform:

1. Strong leadership and political commitment

One of the key prerequisites for successful tax reform, widely agreed upon by observers, is strong leadership and political commitment at the highest levels of government. This can take the form of political figures capable of seizing opportunities, building the necessary political coalitions, balancing the interests of particular groups, and creating conditions conducive to reform implementation.

2. The presence of supporting institutions

The quality of the institutions tasked with planning, analyzing, and implementing tax reform is a crucial factor in ensuring success.

3. Establishment of fiscal-social contracts

New fiscal contracts play a crucial role in improving taxation efforts. This relates to the government's return on taxes collected from the public, including adequate and high-quality public services. After all, the public is willing to pay higher taxes in exchange for improved social and economic services.

4. External support and other international initiatives

Political commitment from national authorities is indeed a key factor in determining the success of tax reform. However, international support can strengthen and reinforce this commitment once it exists.

In the modern era, various tax system and administration reforms have been implemented by Indonesia, Thailand, and Vietnam to improve tax ratios and strengthen fiscal capacity. Vietnam has succeeded in increasing its tax revenue gradually over the past decade, although the tax ratio has significantly decreased since the COVID-19 pandemic. The Vietnamese government has prioritized modernization of tax administration, including the implementation of the e-Tax system, electronic invoicing, and risk-based audits. These efforts have been accompanied by an expansion of the tax base, including regulation of the informal sector and the imposition of new taxes such as property and digital taxes. From an administrative perspective, Thailand has modernized by implementing *e-filing*, *e-payments*, and utilizing *artificial intelligence* in risk-based audit processes, which have been proven to reduce compliance costs and increase voluntary compliance. Indonesia has also shown progress in improving tax compliance, with a formal compliance ratio of 85.75% in 2024 (DDTC, 2025). Digitalization efforts are also growing, particularly through the development of the *Core Tax Administration System* (CTAS) and the integration of National Identification Number and Taxpayer Identification Number. Furthermore, Indonesia has demonstrated its commitment to tax regulatory reform through the implementation of the Tax Regulation Harmonization Law and the Job Creation Law, which aim to implement administrative reform, consolidate tax policies, and broaden the tax base.

Tax avoidance requires attention in increasing the tax ratio because this practice can reduce the revenue base even if tax rates are relatively stable. The quality of tax administration is significantly related to the level of tax avoidance, thus countries with better administrative systems tend to have lower levels of tax avoidance (Pratama & Muhammad, 2025). In addition, company ownership structure, particularly foreign ownership, influences the tendency to engage in tax avoidance, which ultimately impacts a country's fiscal capacity (Syukur & Jongsureyapart, 2023). Hence, the issue of tax avoidance not only impacts the erosion of the tax base but also the ability of the tax system to perform its redistributive function and support long-term fiscal sustainability.

In a broader global context, addressing tax avoidance requires enhanced cross-border coordination. The UN Tax Convention is a crucial instrument for strengthening fiscal capacity by harmonizing tax rules and mechanisms across jurisdictions. This framework also supports the development and implementation of new tax instruments, including wealth taxes and digital taxes, which have the potential to broaden the revenue base, reduce tax erosion, and increase national tax ratios.

Chapter V.

Conclusion and Recommendations



5.1 Conclusion

This study examines the dynamics of tax ratios in Indonesia, Thailand, and Vietnam, taking into account the structure of tax revenues, reform strategies, structural challenges, and their implications for fiscal capacity. Overall, all three countries continue to face the problem of low tax ratios, albeit with varying characteristics and intensity of challenges. Indonesia, for example, has only been able to maintain its tax ratio at around 10–11% of GDP over the past decade. Reforms through the Tax Regulation Harmonization Law and administrative digitization through the Core Tax Administration System (CTAS) have indeed improved compliance, but have not significantly expanded the tax base. Thailand has performed better, with a relatively stable tax ratio of 15–17% since major reforms in 1992. The transition from business tax to Value-Added Tax (VAT), accompanied by adjustments to the PIT and CIT rates, has boosted revenue. However, the high informal sector in the economy has hampered further increases in the tax ratio. Vietnam actually shows a downward trend, from 14.6% in 2019 to around 11.4% in 2024, primarily due to the impact of the pandemic and lower tax rates. Nevertheless, Vietnam has made significant progress in administrative reforms, such as the implementation of e-filing, e-invoicing, and data integration, which have successfully expanded the taxpayer base and improved compliance.

All three countries face similar structural challenges. The dominance of the informal sector limits the government's ability to expand the tax base. In Indonesia and Thailand, more than half of the workforce remains in the informal sector, while in Vietnam the proportion is lower but still significant. In addition, the tax structure remains heavily reliant on indirect taxes such as Value-Added Tax (VAT) and excise taxes. The contribution of direct taxes, particularly personal income tax, is still relatively small, thus the potential for redistribution through the tax system is suboptimal.

Historically, tax reforms in Indonesia, Thailand, and Vietnam in the past were aimed not only at meeting government financing needs, but also at restructuring the tax system to make it more balanced and minimize potential distortions to the economy. These efforts were reflected in adjustments to the Personal Income Tax (PIT), Corporate Income Tax (CIT), and Value-Added Tax (VAT) rates, designed to minimize excessive burdens on taxpayers and maintain public purchasing power. These tax reforms then were deemed appropriate and significantly improved tax ratios in the three countries.

Over time, the goal of tax reform should no longer be solely to increase revenue, but also to simplify and modernize the tax system. A complex tax system has been proven to increase administrative costs, increase the compliance burden on taxpayers, as well as complicate oversight by fiscal authorities. In addition, complex tax regulations often open up opportunities for corruption, abuse of authority, and tax avoidance. Therefore, reform efforts are largely directed at streamlining regulations, reducing overlapping tax revenues, and reducing bureaucratic red tape. The use of digital technologies such as

e-filing, e-invoicing, and population data integration are crucial tools for streamlining tax administration processes and for collecting taxpayer data to improve tax compliance.

In addition to simplification, the reform direction also places increasing emphasis on achieving fiscal justice. The widening inequality in a country can potentially trigger socio-economic upheaval, such as demonstrations, diminished government legitimacy, and resistance to new policies. Fiscal justice emphasizes that taxpayers with greater economic capacity should bear a more proportional tax burden. However, assessing progressivity or regressivity cannot be done by examining one type of tax in isolation, but rather by understanding the entire tax system, and even more broadly, by examining the interaction between tax policy and state spending. Taxes that appear regressive, such as VAT, can still support fiscal justice if the revenue is used to finance progressive social programs, such as subsidies for education, health, and social assistance. Therefore, the true measure of fiscal justice is not simply the presence or absence of progressive taxes, but rather whether low-income groups receive real protection from fiscal policy through favorable public spending and a relatively lighter tax burden.

5.2 Recommendations

Based on findings and lessons learned from the experiences of Indonesia, Thailand, and Vietnam, a number of policy recommendations can be formulated to strengthen fiscal capacity.

1. Strengthening Tax Compliance and Controlling Shadow Economy

The government needs to expand its compliance strategy by including the shadow economy as a potential taxable entity. For example, on e-commerce platforms, it should ensure tax deductions and reporting are automated or conducted through third parties. This step is crucial given the limited level of voluntary compliance among online businesses. Furthermore, global coordination through the UN Tax Convention is relevant to curbing cross-jurisdictional tax avoidance practices. Harmonizing international rules under this framework will strengthen national fiscal positions and ensure a more secure revenue base.

2. Proportional Expansion of the Tax Base

A tax base expansion must be designed to focus not only on the formal sector but also encompass informal economic activity. A proportional approach allows for a more equitable distribution of the tax burden without creating distortions for already compliant taxpayers. Low-tax models or special schemes for the informal sector can be instrumental in the transition to full compliance. This strategy is more effective than increasing rates, which could potentially suppress purchasing power and slow economic growth. Broadening the tax base will stabilize state revenues while improving fiscal equity.

3. Utilization of Digital Technology and Artificial Intelligence (AI)

The application of digital technologies, including big data and artificial intelligence (AI), must be a priority in modernizing tax administration. Improving the quality of administrative data, along with transparency and accessibility, are key to strengthening system accuracy. Digitizing transactions allows for a more measurable expansion of VAT coverage based on data, while AI can be used to analyze transaction patterns, detect anomalies, and provide real-time information. With increasingly reliable data, the tax system will not only be more administratively effective but can also serve as an instrument for informing long-term changes in political and economic beliefs.

4. Evaluation of Tax Incentives

Tax incentive policies need to be systematically evaluated to assess their effectiveness on economic growth and public welfare. Inappropriately targeted incentives, such as those that only benefit high-income groups or a handful of large corporations, have the potential to reduce the revenue base without significantly contributing to development. The government needs to develop an evaluation framework based on economic, social, and fiscal benefit indicators to ensure that the incentives provided are truly aligned with national development goals. Well-targeted incentives will serve as a catalyst for inclusive growth while maintaining long-term fiscal sustainability in the same time.

5. Diversification of New Tax Instruments

The development of new tax instruments is necessary to strengthen state revenue structures amidst the increasing diversity of economic activities. For example, digital taxes can be encouraged to capture the growing potential for cross-jurisdictional transactions, while carbon taxes can be integrated to support the energy transition and environmental sustainability agendas. Both instruments not only increase state revenue but also have significant redistributive functions. The implementation of new taxes must be designed with attention to the readiness of the administrative system and its economic impact, so that they can contribute effectively to increasing the tax ratio and achieving sustainable development goals.

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