



Revenue Department News

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Subject : The Revenue Department clarifies the case where an employer offers severance pay to an employee who is terminated prior to the completion of 5-year employment

According to an article criticizing that taxing the total amount of the severance pay offered to an employee whose employment is terminated prior to the completion of 5 years aggravates the unemployed person, because the right for excluding such income from tax calculation (Section 48(5) of the Revenue Code) is given only to the employee who is terminated after completing 5 years of employment. Therefore, it is recommended that the Revenue Department should remove the condition regarding 5 years of employment or allows progressive tax exemption based on number of employment years.

Mr. Pinsai Suraswadi, Acting Principal Advisor on Strategic Tax Administration (Finance and Banking), as spokesman of the Revenue Department, provides clarification on this case as follows:

1. Severance pay is a payment that an employer offers to an employee. In tax principle, it is considered an income of the employee and is liable to taxation which has the same tax liability as other types of income. However, the Revenue Code has exemptions for long-term committed savings in 2 cases:

(1) In the case where the payment is from a fund established for promoting long-term committed savings, such as a provident fund and the Government Pension Fund. Income paid from such funds will be exempted from taxation if it meets the conditions regarding long-term savings.

(2) In the case of severance pay, working for more than 5 years is similar to cumulating long-term savings. Therefore, income from severance pay will be exempted from taxation and is not required to include in tax calculation as it is required for other types of income.

2. However, if the termination of employment is involuntary and the employee receives severance pay under the Labor Law, the severance pay shall be exempted from taxation in the amount up to 300,000 baht, according to Section 2(51) of the Ministerial Regulation No. 126 (B.E. 2509) issued under the Revenue Code regarding Revenue Tax Exemption. For the part that exceeds 300,000 baht, the employee can still deduct an expense of 100,000 baht and apply a self-deduction of 60,000 baht and other applicable deductions.

Moreover, the part of net income that does not exceed 150,000 baht is exempted from taxation, which will reduce the tax burden for the employee, perhaps, to the extent that there is no tax payable amount for the employee at all.

For further queries, please contact RD Intelligence Center at Tel. 1161, or any Revenue Office nation-wide.

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