



TMI Eyes No. 20: Tax Exemption on Severance Pay Extended

The Ministry of Finance has recently increased the exemption limit for severance pay received upon the termination of employment. The exemption has been raised from the equivalent of up to 300 days' wages, with a maximum of THB 300,000, to up to 400 days' wages, with a maximum of THB 600,000. This extension aims to alleviate the tax burden on employees who are terminated.

TMI provides further details and suggestion on this development below.

Increase of Assessable Income Exemption Limit on Severance Pay

Clause 2(51) of Ministerial Regulation No. 126 (B.E. 2509 (1966)) originally provided a PIT exemption for severance pay received under the labor laws. This exemption was intended to reduce the tax burden on employees who were terminated from their employment. Previously, the exemption was capped at an amount equivalent to 300 days' wages or THB 300,000, in line with the Labor Protection Act B.E. 2541 (1998) (LPA).

Yet, in 2019, the government introduced a new severance pay bracket under the LPA, extending severance pay to the equivalent of 400 days' wages for employees who have worked for 20 years or more. Nonetheless, Ministerial Regulation No. 126 had not been amended to reflect this change.

On July 17, 2024, the Ministry of Finance issued Ministerial Regulation No. 394 B.E. 2567 (2024) to amend Clause 2(51) of Ministerial Regulation No. 126, increasing the severance pay exemption limit to the equivalent of 400 days' wages, with a maximum cap of THB 600,000.

This regulation is designed to provide greater tax relief to employees facing termination, aligning the tax exemption with the revised severance pay rates in the LPA and accounting for the effects of inflation and the rising Consumer Price Index in Thailand. Employees receiving severance payments for terminations occurring on or after January 1, 2023, should take note of this updated PIT exemption.

It is important to note that this exemption does not apply to severance pay related to retirement or the expiration of a fixed-term employment agreement. The new exemption rate applies retroactively to assessable income received from January 1, 2023, onward.

Summary of Severance Pay under Article 118 of the LPA

- If the employee has worked for 120 days but less than 1 year, they are entitled to receive payment equivalent to their last 30 days of wages.

- If the employee has worked for 1 year but less than 3 years, they are entitled to receive payment equivalent to their last 90 days of wages.
- If the employee has worked for 3 years but less than 6 years, they are entitled to receive payment equivalent to their last 180 days of wages.
- If the employee has worked for 6 years but less than 10 years, they are entitled to receive payment equivalent to their last 240 days of wages.
- If the employee has worked for 10 years but less than 20 years, they are entitled to receive payment equivalent to their last 300 days of wages.
- If the employee has worked for 20 years or more, they are entitled to receive payment equivalent to their last 400 days of wages.

Filing for PIT Refund

Given the new exemption rate applies to assessable income received from January 1, 2023, onward, any excess PIT withheld in 2023 and filed in 2024 may be refundable. Affected individuals may request a tax refund from the Thai Revenue Department following the department's clarification. The tax refund must be requested within three years of the PIT return filing deadline.


TMI's Notes

Employers and their human resources departments should take note of this significant increase in the assessable income exemption limit, as it has a direct impact on terminated employees. Additionally, since the increased limit applies retroactively to severance pay received from January 1, 2023, employers should assist eligible terminated employees in re-filing their tax returns to benefit from the new exemption and secure any applicable tax refunds. Both employers and employees must remember that tax refund requests must be submitted within three years from the tax return filing deadline (for the 2023 PIT, the deadline is March 31, 2024), i.e., by March 31, 2027.

Daiki Koso, Partner
Monchai Varatthan, Partner
Sunanta Mueangjan, Associate
TMI Associates (Thailand) Co., Ltd.

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 bangkok@tmi.gr.jp

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* Affiliated office



Sathorn Square Office Tower, 22nd Floor, unit 2212,
North Sathorn Rd., Silom, Bangrak, Bangkok 10500



Facebook: TMI Associates – Thailand
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