

Thailand as a regional business hub

June 2015

Thailand's reputation as a business-friendly country for foreign investment has made it a leading center of commerce in Southeast Asia. Through a combination of low tax rates, well-developed infrastructure, cost-effective workforce, and ideal geographic location, Thailand has emerged as a globally recognized destination for service and industry sectors. As the ASEAN Economic Community (AEC) comes into fruition in 2015 and the Thai economy continues to evolve, international firms will reap the benefits of this new era of commerce in Thailand.

To achieve the goal of creating an even more investor friendly environment, the Kingdom of Thailand has developed a new palette of incentives specifically for the establishment of international headquarters (IHQ) and international trading centers (ITC) in Thailand. These incentives include reduction or exemption of corporate income tax, personal income tax for expatriates, and business tax.

Thailand defines an **International Headquarters (IHQ)** as a company incorporated under Thai laws that provides any of the following activities to its branches or "associated enterprises", whether located in Thailand or overseas:

- (1) Managerial services or technical services
- (2) Supporting services engaged in:
 - 2.1 General management, business planning, and business coordination
 - 2.2 Procurement of raw materials and parts
 - 2.3 Research and development of products
 - 2.4 Technical support
 - 2.5 Marketing and sales promotion
 - 2.6 Human resource management and training
 - 2.7 Financial advisory services
 - 2.8 Economic and investment analysis and research

- 2.9 Credit management and control
- 2.10 Any other supporting services stipulated by the Director General of the Revenue Department
- (3) Financial management, including:
 - 3.1 Financial management by corporate treasury centers approved under the Exchange Control Law.
 - 3.2 Borrowing and lending in Thai Baht for the following cases:
 - 3.2.1 Borrowing in Thai Baht from financial institutions or associated enterprises in Thailand.
 - 3.2.2 Managing Thai Baht obtained from 3.1 or 3.2.1 by lending in Thai Baht to associated enterprises in Thailand
- (4) An International Trading Center (ITC) refers to a company incorporated under Thai laws that purchases and sells goods, raw materials and parts or that provides international trading-related services to juristic persons incorporated under foreign laws. International trading-related services include:
 - 4.1 Procurement of goods
 - 4.2 Warehousing and inventory services prior to delivery
 - 4.3 Packaging services
 - 4.4 Transportation of goods
 - 4.5 Insurance on goods
 - 4.6 Advisory, technical and training services on goods
 - 4.7 Any other services stipulated by the Director General of the Revenue Department.

An associated enterprise is defined as follows:

1. A company or juristic partnership that is a direct or indirect shareholder in the International Headquarters with not less than 25% of total capital
2. A company or juristic partnership in which the International Headquarters is directly or indirectly a shareholder or partner with not less than 25% of total capital

3. A company or juristic partnership in which the company or juristic partnership specified in number 1 is a direct or indirect shareholder or partner with not less than 25% of total capital
4. A company or juristic partnership which has power to control or supervise the operation and management of the International Headquarters
5. A company or juristic partnership in which the International Headquarters has power to control or supervise the operation and management
6. A company or juristic partnership in which the company or juristic partnership under number 4 has the power to control or supervise the operation and management

Thailand defines an **International Trading Center (ITC)** as a company incorporated under Thai laws that purchases and sells goods, raw materials and parts or that provides international trading related services to juristic persons incorporated under foreign laws.

International trading related services include:

- (1) Procurement of goods
- (2) Warehousing and inventory services prior to delivery
- (3) Packaging services
- (4) Transportation of goods
- (5) Insurance on goods
- (6) Advisory, technical and training services on goods
- (7) Any other services stipulated by the Director General of the Revenue Department.

Thailand offers a wide variety of advantages that have made it a top choice for investment, especially in international headquarters and international trade centers, including:

Strategic Location & Excellent Logistics Systems

Thailand's strategic location has made it the logistics hub of ASEAN. The country provides world-class infrastructure along with cost-effective logistics and is one of the top performing ASEAN nations in the World Bank Logistics Performance Index. Thailand has been actively executing new policies that will further enhance all aspects of Thailand's transportation infrastructure. The Eight-Year Infrastructure Development Plan (2015-2022) worth US\$60 billion (THB1.9 trillion) was initiated with the goal of expanding Thailand's infrastructure to reduce logistics costs. Highlights of the plan include projects to upgrade key railway lines, construction of additional deep seaport facilities, expansion of airport facilities, and enhancing road connectivity within Thailand and with neighboring nations. These developments will minimize transport time and support even greater volumes of cargo; strengthening Thailand's position as ASEAN's logistics hub.

Access to Markets

The ASEAN bloc is one of the fastest growing regions in the world and 2015 is the year that the ASEAN Economic Community (AEC) comes into effect. Thailand is in a unique position to play a major role in this market of 600 million consumers, which has a combined GDP of more than 2 trillion U.S. dollars. As the largest economy in mainland Southeast Asia, Thailand has also become a hub of commerce for the fast growing Cambodia, Laos, Myanmar, and Vietnam (CLMV) markets. International headquarters established in Thailand will have a key advantage over competitors as they can tap into many of the world's most exciting emerging economies.

A Globally Recognized Business Friendly Nation

Thailand is recognized throughout the world for its welcoming environment for investment. The 2015 World Bank Ease of Doing Business Index Report ranked Thailand the 3rd highest-ranking nation in Southeast Asia. Thailand scored especially well in cross-border trade, contract enforcement, and minority investor protection.

Additionally, Thailand offers an excellent ratio of cost and quality that has made it a favored location among investors. According to A.T. Kearney's 2014 Global Services Location Index (GSLI), Thailand is ranked the 6th most attractive nation in the world for offshore locations. The index ranked and evaluated 50 nations by financial attractiveness, human capital, and business environment.

Competitive Human Resources

A core aspect of Thailand's economic success has been its high-quality and cost-effective labor force. The main reason behind Thailand's talented labor force is an education system that consistently produces the skills sought after by the private sector. Of all the mainland Southeast Asia nations, Thailand has the most universities ranked in the top 50 of the Quacquarelli Symonds (QS) Asia University Rankings.

Thailand's top universities are producing individuals with the skills needed to thrive and succeed in global commerce through English-based undergraduate programs. These programs produce individuals with strong English proficiency and dynamic creative thinking that until recently, could only be found in premier western universities. Thailand's graduate schools such as its premiere business school, the Sasin Institute of Business Administration, are training the future leaders of ASEAN business. Sasin's MBA program was established through a collaboration of the world's leading business schools, Northwestern University's Kellogg School of Management and University of Pennsylvania's Wharton School of Business.

"Thailand has been a great location to host our Regional Headquarters. Bangkok is a key strategic place for us to effectively manage our SE Asia Operations. We are very pleased with the quality of the talent that has joined us, as they are very competent to provide support to our other SE Asia sites and to collaborate with our US Head Office. IHQ provides the necessary benefits to make Thailand an even more cost effective choice."

-Mr. Roberto Mayr, VP of Eastern Hemisphere Operations at Hanesbrands-

High Standard of Living at the Right Cost

Thailand offers an enviable lifestyle for expatriates who call it home. For the past 5 years, the HSBC Expat Explorer Survey has ranked Thailand among the top 10 countries in the world for expatriates. The 2014 edition ranked Thailand the 7th best country in the world and 6th best country for expatriate living. HSBC also stated that Thailand is the best destination for expatriates looking for an improved lifestyle at low costs.

Additionally, Thailand offers many benefits for expats with families. Thailand is one of the top medical tourism centers in Asia, attracting patients from around the world thanks to state of the art medical facilities, English speaking medical professionals, and affordable pricing. Due to the diverse nature of the expatriate community in Thailand, international schools provide high quality education along with a range of programs including: the globally recognized International Baccalaureate (IB) program, the American Advanced Placement program, as well as British, German, and Japanese programs, among others.

Attractive Incentives

As part of Thailand's efforts to transform into a trading hub, the government has created an attractive package of incentives that meet the core needs of IHQ/ITC.

International Headquarters (IHQ) receive the following incentives:

Incentives offered by the Board of Investment (BOI)

- Permission to bring in skilled personnel and experts into the Kingdom to work in investment promoted activities.
- Permission to own land
- Exemption of import duty on machinery (only machinery for R&D and training activities)
- Exemption of import duty on raw materials and parts used in the production for export

Conditions to apply for privileges offered by the BOI

- Must supervise at least one branch or associated enterprise outside Thailand
- Paid-up capital must be at least THB10 million

Incentives offered by the Revenue Department (RD)

Corporate Income Tax (CIT) for 15 accounting periods from the date of approval by the Director General of the Revenue Department

1. Revenue entitled to corporate income tax exemption:

- 1.1 Income derived from managerial services or technical services, supporting services, or financial management services to associated enterprises incorporated under foreign laws.
- 1.2 Royalties received from associated enterprises incorporated under foreign laws.
- 1.3 Dividends received from associated enterprises incorporated under foreign laws.
- 1.4 Capital gains received from the sales of shares in associated enterprises incorporated under foreign laws.
- 1.5 Income derived from the purchase and sales of goods overseas on the condition that such goods must not be imported into Thailand, except for the purpose of transit or transshipment under Thai customs law, and income derived from providing international trading related services to juristic persons incorporated under foreign laws on the condition that such income must be received from or in foreign country.

2. Revenue entitled to 10% of corporate income tax rate*

- 2.1 Income derived from managerial services or technical services, supporting services or financial management services to associated enterprises established under Thai laws.
- 2.2 Royalties received from associated enterprises established under Thai laws.

Note: * The amount of revenue entitled to corporate income tax reduction must not be greater than revenue entitled to corporate income tax exemption according to item 1.1 and 1.2

Personal Income Tax The personal income tax rate for expatriates working in an IHQ is reduced to 15% on gross income and benefits derived from employment

Specific Business Tax Exemption for the gross receipts from lending to associated enterprises

Final Tax Exemption for the following revenue:

- Dividends paid by the IHQ (dividends paid from revenue entitled to corporate income tax exemption) to a company or juristic partnership incorporated under foreign laws and has no operation in Thailand.
- Interest paid by the IHQ (interest from loans taken out by an IHQ to relend to associated enterprises under financial management) to a company or juristic partnership incorporated under foreign laws and has no operation in Thailand.

Conditions to apply for privileges offered by the Revenue Department:

- Must provide managerial services or technical services or supporting services or financial management to its associated enterprises incorporated under foreign laws.
- Paid-up capital must be at least THB10 million on the last day of each accounting period.
- Total operating expenses which are paid to recipients in Thailand (sales and administration expenses) must be at least THB15 million per accounting period.

Note: If the IHQ is unable to meet any of the specified conditions within an accounting period, the tax incentives in that accounting period will not be granted.

International Trade Center (ITC) receive the following incentives:

Incentives offered by the Board of Investment (BOI)

- Permission to bring in skilled personnel and experts into the Kingdom to work in investment promoted activities.
- Permission to own land
- Exemption of import duty on machinery
- Exemption of import duty on raw materials and parts used in the production for export

Conditions to apply for privileges offered by the BOI

- An ITC must have paid-up capital of at least THB10 million.

Incentives offered by Revenue Department (RD)

Corporate Income Tax (CIT)

For 15 accounting periods from the date of approval by the Director General of the Revenue Department, an ITC is entitled to corporate income tax exemption on:

1. Income derived from the purchase and sales of goods overseas on the condition that such goods must not be imported into Thailand, except for the purpose of transit or transshipment under Thai customs law.
2. Income derived from providing international trading related services to juristic persons established under foreign laws on the condition that such income must be received from or in foreign country.

Personal Income Tax The personal income tax rate for expatriates working in an ITC is reduced to 15% on gross income and benefits derived from employment.

Final Tax Exemption for dividends paid by the ITC (dividends paid from revenue entitled to corporate income tax exemption) to a company or juristic partnership under foreign laws, and has no operation in Thailand.

Conditions to apply for privileges offered by the Revenue Department:

- The paid-up capital must be at least THB10 million on the last day of each accounting period.
- ITC must have total operating expenses which are paid to recipients in Thailand (sales and administration expenses) of at least THB15 million per accounting period.

Note: If the ITC is unable to meet any of the specified conditions within an accounting period, the tax incentives in that accounting period will not be granted.

In addition, to facilitate IHQ/ITC registration for a foreign business certificate/license, the **Department of Business Development, Ministry of Commerce**, has reduced the timeframe as follows:

- ✓ 30 days to 15 days for BOI-promoted companies
- ✓ 60 days to 30 days for non-BOI promoted companies

The **Bank of Thailand** will also assist IHQ/ITC through a relaxation of foreign currency conditions.

For further information:

The Office of the Board of Investment (BOI)

General enquiries and investment promotion incentives for International Headquarters and International Trading Centers

Contact: One Start One Stop Investment Center (OSOS)

Tel: 66(0)2 209 1100 email: osos@boi.go.th

Tel: 0 2553 -8271 Website: www.boi.go.th

The Revenue Department

Special tax regime for International Headquarters and International Trading Centers

Contact: Bureau of Tax Policy and Planning

Tel: 0-2272-8033 Email: ihqitc@rd.go.th Website: www.rd.go.th

The Department of Business Development

Company registration and business licenses and certificates

Contact: Bureau of Foreign Business Administration Tel: 0 2547 4425-6

Email: foreign@dbd.go.th Website: <http://www.dbd.go.th>

The Bank of Thailand

Rules and regulations on corporate treasury centers

Contact: Foreign Exchange Administration and Policy Department Tel: 0 2356 7799

Email: FOG_ECST@bot.or.th, FX_ADMSV_NB@bot.or.th Website: <https://www.bot.or.th>

The Department of Employment

Work permits for expatriates

Contact: Office of Foreign Workers Administration Tel: 0 2245 2745, 0 2248

7202 Website: wp.doe.go.th

Disclaimer: Content of this publication is for informational purposes only and should not be seen as complete or legally binding. For clarification and/or confirmation of information, please contact appropriate BOI officials.