

Thailand approves International Business Centre to replace ROH, ITC and IHQ special purpose vehicles

by

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Background:

In late 2018, Thailand devised the International Business Centre, as a new special purpose vehicle to replace previous similar corporate vehicles, namely the Regional Operating Headquarters (ROH), the International Trading Centre (ITC) and the International Headquarters (IHQ). The underlying reason for creating the new vehicle, is that Thailand was accused by the OECD of breaching the BEPS rules to prevent profit shifting to more tax friendly concepts/countries.

International Business Centre:

The IBC will replace the old ROH, ITC and IHQ vehicles. Under a regulation issued in January 2019, old ROHs, ITCs and IHQs may continue to exist in accordance with the regulation(s) under which they were set up, or convert to become an IBC.

However, under a further regulation issued in April 2019, all tax incentives under existing vehicles were cancelled, with effect from 1 June 2019 for corporate tax incentives, and with effect from 1 January 2020 regarding personal income tax incentives.

Permitted activities of an IBC:

An IBC may only engage in the following activities:

- General management, planning and coordination
- Sourcing of materials and parts
- Research and development
- Technical support
- Marketing and sales promotion
- Human resource management and training
- Advisory services in finance (except lending services)
- Economic and investment analysis and research
- Credit management
- Treasury centre
- International trading

Except for international trading, all services may only be supplied to associated enterprises only.

An IBC providing international trading services must perform at least one of the other business activities listed above.

Share capital and employees:

An IBC must have minimum paid up share capital of 10 million Baht. It must have at least 10 employees (only five are required if its activities are limited to being a treasury centre only).

Tax incentives:

An IBC will be entitled to the following tax benefits:

- The personal income tax reductions will be the same as for an IHQ namely 15% personal income tax subject to conditions.
- There is reduced corporate tax rates of: 8%, 5% or 3% provided the IBC's annual expenditure is 60 million, 300 million or 600 million Baht respectively.
- No tax is payable on dividends received from associate enterprises in Thailand or elsewhere.

Comment: One wonders how popular the new IBC vehicle will be in practice. As noted above, it must generate a minimum of 60 million Baht in annual expenditure to be eligible for any tax benefits. The limited scope of an IBC's permitted activities may also affect the attractiveness of setting up such a vehicle. Time will tell.

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