IHQs & ITCs: New incentives for Thailand or just a change of letters?

On 1st May a Royal Decree was published,[1] implementing incentives for companies establishing their international headquarters (IHQ) and international trading centres (ITC) in Thailand. The idea behind the scheme is to attract businesses to establish their headquarters or a trading hub in Thailand, thus bringing more tax revenues, skilled jobs and know-how to the Land of Smiles.

Such incentive schemes are nothing new. The previous major initiative launched in 2002 was the Regional Operating Headquarters scheme. This was designed to attract Thai and foreign multinationals to set up a regional hub to support operations around Southeast Asia. In 2010, more incentives were introduced and qualification criteria were relaxed. This was accompanied a year later by the International Procurement Centre (IPC) scheme, which offered incentives for businesses interested in using Thailand merely as a trade hub, rather than a full-blown regional office.

Neither the ROH nor IPC status was particularly successful. Qualification to set up an IPC meant meeting stringent requirements and the overall package wasn't as attractive as that of neighbouring counties.[2] The scheme consequently expired in 2013, after just two years.[3] By the end of 2014, there were fewer than 300 businesses with an established ROH in Thailand.[4]

Now the acronyms have changed to IHQ and ITC but how do the incentives differ?

IHQs: Less restrictive

The new IHQ scheme is more far-reaching than its ROH predecessor. It covers four main business activities: management services, technical services, support services and financial management services.

The fiscal year minimums of THB 10 million paid-up registered capital and THB 15 million spend remain intact. However, the new scheme is less restrictive in its qualification requirements. Under the ROH regulations a Thai-

[1] Royal Decree No. 586 of 1st May 2558 (2015)

[2] http://www.dbriefsap.com/bytes/ThailandSummary-newIHQregime.pdf

[3] http://www.nationmultimedia.com/business/New-tax-incentives-for-international-headquarters--30254167.html

[4] http://www.nationmultimedia.com/business/Next-move-Thailand-as-HQ-and-trading-hub-of-Asean-30249545.html

based HQ had to serve at least three 'associated enterprises'; for an IHQ, that number has been reduced to just one.

Incentives

Tax incentives for a registered IHQ cover corporate income tax, personal income tax and the specific business tax.

In short, the new IHQ scheme offers:

- Tax exemption on capital gains from transferring overseas shares
- Specific business tax exemption on loans made to associated companies
- Corporate income tax exemption on income from associated companies based overseas
- Corporate income tax reduction to 10% on income from associated companies in Thailand
- Personal income tax reduction to 15%
- Tax incentive period extended to 15 years
- Staff education requirements removed
- THB 30 million capital expenditure requirements removed
- No longer any conditions on the overseas to domestic income ratio
- Reduction in the penalty for non-compliance

The last of these changes means that if an IHQ ceases to comply with the minimum requirements, it will now only lose its tax incentives for that particular accounting period; not right from day one, as before.

ITC: incentive to trade

The international trading centre scheme is designed to provide incentives for Thai-based businesses trading with firms located overseas.

The scheme offers tax incentives for the first 15 accounting periods of the ITC's existence. A corporate tax exemption applies to income derived from buying and selling goods overseas, as long as they don't enter Thailand. Also, no corporate tax will be payable on income from services provided to companies located outside Thailand.

As for personal income tax, expatriates working at the ITC will be entitled to a 15% reduction.

If an overseas firm, with no business operation in Thailand, receives dividends and/or interest from an ITC, it will be exempt from tax without time limit.

Ask an expert

Only time will tell how these schemes will work in practice and how attractive they will be to firms. On the face of it, the IHQ and ITC regime looks like an improvement on its predecessors. However, that all depends on the individual company and the activities it undertakes. Our tax experts are on hand to give independent advice tailored to the requirements of your business.

Please contact us by e-mail at info@mbmg-group.com or call +66 2 665 2536.