

## Thailand: Changes to Personal Income Tax and Corporate Taxes

### *Personal Income Tax*

In mid-April, the Thai cabinet approved a restructuring of personal income tax, which will come into force for the 2017 tax year.

The finance ministry's plan behind the changes is to charge less income tax, in order to boost consumption and thus increase revenues from VAT.

In the changes, the **personal, spouse/partner allowances**, currently at THB 30,000 a year, will increase to THB 60,000; thus up to THB 120,000 per couple. The limit for **estate deductions** has also doubled to THB 60,000; as has the maximum **child allowance**, to THB 30,000 per child; whilst the three-child limit on that allowance and the THB 2,000/child education allowance have been removed. The **expenses allowance** limit has also been increased to 50% of annual income, with a THB 100,000 maximum (the current rate is 40% with a THB 60,000 limit). In addition, the **30% tax band** has been widened to a bracket of THB 2,000,001-5,000,000 (see table below).

On implementation of these changes, tax payers who receive salaries and only deduct personal allowances will pay tax on income starting at THB 26,000/month, as opposed to the current amount of THB 20,000/month.

### *Corporate Tax*

In a separate decision, a Royal Decree has been issued<sup>1</sup> allowing corporations or registered partnerships to **deduct research and development expenditure on their tax returns** for up to three folds.

The second fold is 100% tax deductible for actual expenditure and the third fold is 100% tax deductible for actual expenditure occurring between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2019. However, the total tax exemption must not exceed the ratio of corporate income used in net profit calculation within the same tax year, as follows:

Businesses cannot use expenditure recorded under investment promotion privilege regulations in duplicate for corporate income tax exemption.

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<sup>1</sup> Revenue Code regarding exemption of revenue taxes (No. 598) B.E. 2559 (2016), effective as of 25 February 2016

Furthermore, in March a draft Royal Decree was approved to amend the Revenue Code in order to provide specific business tax exemption for Regional Operating Headquarters (ROH) on revenue derived from financial management of subsidiaries. The Royal Decree is expected to enter into effect as of 2<sup>nd</sup> May 2016.

The Thai government has also recently issued an opinion, stating that sales outside Thailand do not require tax receipts to be issued. To illustrate the point, the Revenue Department gave an example, whereby a Thai-based company were to buy rubber in Singapore and then sell it to a Malaysian company and the goods were transported directly from Singapore to Malaysia. The sale would be deemed to have occurred outside Thailand and thus not subject to Thai VAT (under s.77/2 of the Revenue Code). The Thai company is not required to issue a tax invoice, according to section 86 of the Revenue Code, and is not required to list the sale in the monthly VAT reporting form PP30.

### *RMF/LTF Reminder*

When looking at personal income tax, it is easy to overlook the benefits of retirement mutual funds (RMFs) and long-term equity funds (LTFs).

To qualify, RMFs require a minimum yearly investment of 3% of your annual income or THB 5,000 (whichever is higher). LTFs have a maximum yearly investment ceiling of 15% of your annual income, not exceeding THB 500,000. The same limits apply for an RMF, provident fund and state pension collectively.

So, if someone has an annual net income of THB 5 million per annum, of which THB 1 million each year is invested in an LTF and RMF, the tax saving would be THB 350,000.

However, there are two things worth bearing in mind. Firstly, change to the minimum holding period. Effective from 1<sup>st</sup> January 2016, the minimum period before redemption will become seven calendar years<sup>2</sup> - thus a minimum of five years and 2 days. Secondly, it has been announced that the extension of LTFs for tax deductions will end in 2019.

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<sup>2</sup> <http://www.reuters.com/article/2015/11/03/thailandequity-funds-tax-extension-idUSL3N12Y2F620151103>