

INTERNATIONAL BUSINESS CENTERS (“IBC”)



SUMMARY

Thai Cabinet’s resolution passed on 26 March 2019 came into force on 1 June 2019 which effectively abolished the tax measures surrounding Regional Operating Headquarters (ROH 2), International Headquarters (IHQ) and International Trading Centers (ITC). (The tax measures relating to the original ROH 1 have already been cancelled by an earlier resolution). At the same time the Thai Revenue Department has issued a new tax measure under Royal Decree (RD) to promote the establishment of International Business Centers (IBC).

What is International Business Center (“IBC”)?

An IBC is a company incorporated under Thai law which provides (i) management or technical services, or (ii) supporting services or treasury services to associated enterprises.

Why were the previous regimes revoked?

The changes were broadly to align Thailand’s tax measures with international standards. Under the IBC regime, companies now need to meet a higher expenditure threshold than under the previous regimes

it replaced in order to qualify for tax incentives. Under an IBC the minimum annual expenditure is THB 60 million (approx. US\$ 2 million) per year.

What are the benefits of setting up an IBC?

Qualifying companies under the new IBC regime are entitled to a number of both tax and non-tax incentives. These include:-

Tax incentives

- Reduced corporate tax rate on qualifying income depending on the level of annual expenditure by the IBC in Thailand. Specifically:-
 - An 8% rate applies if the IBC incurs expenditure of at least THB 60 million paid to recipients in Thailand in the same accounting period;
 - A 5% rate applies if the IBC incurs expenditure of at least THB 300 million paid to recipients in Thailand in the accounting period; and

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- A 3% rate applies if the IBC incurs expenditure of at least THB 600 million paid to recipients in Thailand in the accounting period.
- A tax exemption on both domestic and foreign sourced dividend income derived from affiliates;
- For specific business tax (SBT), an exemption on qualifying income received from associated enterprises;
- An exemption on withholding tax in respect of dividend payments paid by an IBC to offshore shareholders and for withholding tax on interest payments relating to interest paid by IBC as a qualifying treasury center to foreign associated enterprises in relation to loans for treasury activities;
- Personal income tax, for eligible expatriate employees working for the IBC is a flat 15% income tax rate;
- An IBC can seek a relaxation from import duties for machinery used in R&D; and
- An IBC must apply to the Revenue Department in order to obtain approval to use the tax incentives.

Non-tax incentives

- Permission to own 100% of the share of the IBC;
- Entitlement to visa/work permits for foreign nationals working for the IBC; and
- Ability to own land for use in the business of the IBC.

How to qualify as an IBC and receive tax incentives for 15 years?

The qualifications are as follows:-

- i. The IBC should be a company set up under Thai law to provide qualifying support services or treasury services to its affiliates;
- ii. Such entity must have a paid-up capital of at least THB 10 million on the last day of each accounting period;
- iii. Such entity must have an annual operating expenditure paid to recipients in Thailand of at least THB 60 million in each accounting period; and
- iv. Employ at least 10 knowledgeable and skilled employees or in case of a treasury center have at least 5 skilled employees.

Is it possible for an existing entity promoted under a previous regime to convert to an IBC?

Companies promoted under the current regimes (ROH under regime 1 and 2) may apply to convert to the IBC regime, subject to meeting the prescribed conditions.

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