Overview of Thailand’s IHQ/ITC regime

Thailand’s Cabinet issued two decrees on 1 May 2015 (Royal Decrees No. 586 and 587) that enact into law a new international headquarters (IHQ) and international trading center (ITC) regime (for prior coverage, see World Tax Advisor, 9 January 2015). The IHQ and ITC regime relaxes some of the conditions that previously were imposed on regional operating headquarters (ROH) and that prevented the ROH regime from operating as intended; the new regime also expands the tax and nontax incentives granted to qualifying companies by the Thai Revenue Department.

In addition, the Board of Investment (BOI) has launched a promotional scheme for IHQs and ITCs that includes both tax and nontax incentives.

The IHQ/ITC regime is designed to enhance Thailand’s competitiveness by attracting multinationals to set up their activities in the country and to take advantage of the formation of the ASEAN Economic Community, to help Thailand position itself as an economic hub for Asia.

Definitions of IHQ/ITC

An IHQ is a Thai-incorporated company that provides any of the following services to its branches or affiliated Thai or foreign enterprises:

- Managerial services or technical services;
- Support services such as general management, procurement of raw materials and parts, research and development of products, technical support, marketing or sales promotion, human resource management or training, financial advisory, etc.; or
- Financial management services, including services by corporate treasury centers, borrowing or lending in Thai baht from financial institutions or associated enterprises in Thailand, etc.

An ITC is a Thai-incorporated company that purchases and sells goods, raw materials and parts or provides international trading-related services to juristic persons incorporated under foreign law. International trading-related services include the following:

- Procurement of goods;
- Warehousing and inventory services before delivery of goods;
- Packaging services;
- Transportation of goods;
- Insurance on goods;
- Advisory, technical and training services on goods; and
- Any other services designated by the Director General of the Revenue Department.

Requirements to qualify for IHQ/ITC status

The following requirements must be met for a company to benefit from the IHQ/ITC regime:

• The company must be incorporated under Thai law and have paid-up capital of at least THB 10 million at the end of accounting period;
• The company must have annual operating expenses of at least THB 15 million that are paid to Thai recipients;
• The company must provide qualifying management, technical and support services or treasury center services to an overseas associated enterprise, which can be related through direct or indirect control (it no longer is necessary to have at least three affiliated enterprises, as required under the ROH regime), or to Thai affiliates; and
• The company must submit an application and obtain IHQ status from the Director-General of the Revenue Department. The application must be in a prescribed format and comply with any procedures and conditions set by the Director-General. (ROH status will automatically terminate if an ROH entity that benefited under the previous regime applies to become an IHQ and is granted IHQ status.)

If a company fails to meet the requirements for IHQ/ITC status in any accounting period, the incentives will be suspended for that period.

Tax incentives for IHQs

A qualifying IHQ will be entitled to the following tax incentives:

• A 15-year corporate income tax exemption on the following:
  o Income from the provision of management, technical, support or treasury center services to foreign affiliated enterprises;
  o Income from the purchase and sale of goods overseas, provided the goods are not imported into Thailand, and from trade-related services with overseas companies (e.g. procurement of goods, warehousing, transportation of goods, insurance on goods, etc.);
  o Dividends or royalties received from foreign affiliated enterprises; and
  o Capital gains derived from the sale of shares of foreign affiliated enterprises.
• A 15-year reduced 10% corporate income tax rate (rather than the normal 20% rate) on the following:
  o Income derived from the provision of qualifying services (i.e. management, technical, support and treasury services) to affiliated Thai companies; and
  o Royalty income received from affiliated Thai companies.
• A withholding tax exemption on the following:
  o Dividends distributed by the IHQ to a juristic person incorporated under foreign law and not carrying on a business in Thailand, provided the dividends are paid out of exempt profits; and
  o Interest paid by the IHQ on loans obtained from a juristic person incorporated under foreign law and not carrying on a business in Thailand, where the loan is obtained for the purpose of relending to affiliated enterprises in the context of providing treasury center service activities.
• A 15-year reduced personal income tax rate of 15% on the income of expatriate employees who work at the IHQ and earn employment income. The reduced rate is available from the date the IHQ is approved for the tax benefits under the IHQ regime until the individual’s last day of employment at the IHQ, or until the IHQ’s tax benefits under the regime expire.
• An exemption from the specific business tax on interest income derived by the IHQ from loans granted to affiliated enterprises in the context of providing treasury center services.

The 15-year incentives will be available from the day after the date the Director-General grants approval of the IHQ status or the next accounting period, whichever is selected by the applicant at the time of the application.

Tax incentives for ITCs

A qualifying ITC will be entitled to the following tax incentives:

• A 15-year corporate income tax exemption on income from the purchase and sale of goods overseas, provided the goods are not imported into Thailand, and from trade-related services with overseas companies (e.g. procurement of goods, warehousing, transportation of goods, insurance on goods, etc.).
• A withholding tax exemption on dividends distributed by the IHQ to a juristic person incorporated under foreign law and not carrying on a business in Thailand, provided the dividends are paid out of corporate income tax-exempt profits that are generated from the provision of services to foreign affiliates.
• A 15-year reduced personal income tax rate of 15% on the income of expatriate employees who work at the IHQ and earn employment income. The reduced rate is available from the date the IHQ is approved for the tax benefits under the IHQ regime until the individual's last day of employment at the IHQ, or until the IHQ's tax benefits under the regime expire.

The 15-year incentives will be available from the day after the date the Director-General grants approval of ITC status or the next accounting period, whichever is selected by the applicant at the time of the application.

BOI promotional scheme

In addition to the above tax incentives offered by the Revenue Department to qualifying companies, the BOI offers tax and nontax incentives under a promotional scheme for IHQs and ITCs, including the following:

• An exemption from import duty on machinery used in R&D and training activities (applicable for IHQs) and on raw materials and essential parts used in manufacturing for export (applicable for ITCs);
• Permission to bring in skilled foreign nationals (and their spouse and dependents) to work on promoted activities;
• Permission to own land;
• Permission for foreigners to enter Thailand for the purpose of studying investment opportunities;
• Permission for the IHQ/ITC to be majority or wholly owned by foreigners; and
• Permission to remit foreign currency abroad.
To benefit from the BOI incentives, the Thai company must supervise at least one branch or affiliated enterprise outside Thailand and have paid-up capital of at least THB 10 million. A company receiving benefits under the BOI promotional scheme may submit an application to the Thai Revenue Department to obtain approval to be an IHQ or ITC and thereby receive additional tax benefits.

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