



INTERGEST® THAILAND

Intergest Thailand - Newsletter

February 2013

Thailand – the latest developments in South East Asia

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Thailand – the latest developments in South East Asia

Thailand is recovering from historic floods that inundated the country on a scale never seen before. Drastic taxation measures helped to boost the economy in 2012. Despite uncertainty about the evolution of the global economy, the Thai economy is expected to rebound sharply with GDP growing by 5.5% in 2012 and 5% in 2013 (according to The World Bank). The cabinet has approved tax relief proposals for small and medium sized-enterprises (SMEs) affected by the increase in the nationwide minimum daily wage to 300 baht, which took effect on 1 January 2013. Pursuant to aforementioned Royal Decrees No. 530 and 531 the recent measures are deemed to help SMEs with an annual revenue not exceeding 50 million baht a year. Corporate tax rates have changed from 1 January 2013. Higher wages need to be accompanied by increases in productivity to avoid damage to competitiveness. It is important to note that the withholding tax for SMEs will also be cut to 2% from 3%, and they will be allowed to claim depreciation on machinery of 100% in the first year of purchase until the end of 2013, an extension of one year from the end of 2012. Even if the given forecasted numbers are too optimistic, South East Asia's second-biggest economy has set its pace of recovery. In addition, Thailand's position as the last frontier to Myanmar is excellent and one of the biggest construction projects in South East Asia; "Deep Sea Harbour Dawei" has been started. This paper will give you a brief overview about recent developments in Thailand.

1.) Thai government is trying to set the sails

According to the Office of the Board of Investment (BOI), which operates under the Ministry of Industry investment applications soared sharply last year. The BOI is basically the primary institution in Thailand for investors. The BOI offers assistance and coordinates mainly the foreign business community and is entitled to grant privileges under different plans and schemes. Furthermore, the BOI announced that Thailand has seen the highest number of applications for privileges, which exceeded 1.4 trillion baht in value overall. In this respect it is worth mentioning that a number of new projects will create more than 300,000 jobs within the country. These figures need to be explained. The Investment applications rose substantially in 2012 because the BOI changed the investment policy from a "zone" based policy towards a sectorial industrial policy to create sustainable growth for Thailand over the next decade. It is expected that the numbers will be lower in 2013, but will nevertheless remain at a normal level. The policy change means a major shift, and future applicants of BOI incentives should note that a radical change is on the way. We recommend to our clients considering applications under the existing schemes that they should take this radical change into account. In addition, the new policy will be promoting research and development, high-end technology, and human resource development as well as infrastructure. We will see a deletion of industry areas such as textile, plastic, furniture, toys etc, and basic services. But further announcements by the BOI indicate that other schemes are being promoted such as the STI (Skill, Technology and Innovation) scheme, which means a shift within the policy, from a "broad" approach covering the country towards a sectorial approach. An overview can be found here: <http://www.boi.go.th>. Source: Ministry of Commerce, BOI, and Bangkok Post

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2.) Cabinet approves tax relief for SMEs after increase of daily wage

One of the most controversial topics discussed in Thailand has been the impact of the new 300 baht daily wage nationwide on small and medium-sized enterprises (SMEs). The wage hike took effect partly in 2012 and for the entire country on 1 January 2013. Thailand still has a very high labour-intensive industry, especially in the industrial sectors of automotive and real estate construction. As part of an initiative to promote Thailand's competitiveness, in particular with regard to its neighbours, the Thai government has recently enacted Royal Decree No. 530 and 531 in relation to corporate income tax reduction. Corporate income tax (CIT) has been reduced as set out in the following paragraph and table. The increase of the daily wage means a significant burden for all SMEs, and without doubt, the increase of the minimum wage will have implications for the entire country. In order to counteract the additional burden the government has introduced tax relief for SMEs. The legislative action is aimed at helping the private sector with annual revenue not exceeding THB 50 million a year. The cabinet of the Thailand government has approved a proposal from the Ministry of Finance to increase the tax exemption from THB 150,000 to 300,000. The current rates, effective as of 1 January 2013 are as follows:

Net profit	Tax rate
THB 1 to 300,000	Exempt
THB 300,001 to 1,000,000	15% of net profit for the fiscal period starting on or after 1 January 2012
THB 1,000,001 to above	23% net profit for the first accounting period starting on or after 1 January 2012 and 20 % of net profit for the fiscal period starting on or after 1 January 2013



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It is important to note that the withholding tax for SMEs will also be cut to 2% from 3%, and they will be allowed to claim depreciation on machinery of 100% in the first year of purchase until the end of 2013; an extension of one year from the end of 2012. Further to the aforementioned measures, the government plans to reduce employee and employer contributions to the Social Security Fund (SSF) by 1% each, down to 4% from the current 5%. The plan has been approved and it will take place from 1 January 2013. *Source: Bangkok Post*

3.) Cut in personal income tax

2012 has been a year of changes at the Ministry of Finance. Not only were tax relief measures for SMEs introduced, but also personal income taxpayers got a big present. It was one of the biggest promises of Yingluck Shinawatra's government. The top rate will remain high at 35%, down only slightly from the current 37%.

<u>Annual Taxable Income (Baht)</u>	<u>Marginal Tax Rate</u>
0 – 150,000	Exempt
150,001 – 300,000	5%
300,001 – 500,000	10%
500,001 – 750,000	15%
750,001 – 1,000,000	20%
1,000,001 – 2,000,000	25%
2,000,001 – 4,000,000	30%
4,000,001 – and above	35%

Economists have long argued for a lower government tax base. But they are also worried about budget deficits and inflation, because the government's populist schemes could lead to a public debt crisis in the future. In this connection we would like to mention that the current government also agreed on new tax rules allowing a husband and wife to file separate tax returns. It will take effect immediately and will result in a lower tax burden for the family. But this move was far from voluntary. The Constitutional Court ruled against the Revenue Department, and the Tax Code requirement that a wife needs to add her income to her husband's for filing a joint return, which will subsequently end in a higher tax payment than filing individual returns. Fortunately, that unacceptable situation belongs to the past.

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In this context it is notable that the Revenue Department is trying to raise its international standard in terms of the availability of English tax return forms. The Director-General of the Revenue Department recently announced at a seminar for Thai and foreign taxpayers that English tax return forms (Por.Ngor.Dor.90, Por.Ngor.Dor.91; including a manual explaining how to fill in the forms correctly) for the tax year 2012 can be obtained and downloaded from the website of the Revenue Department. Given the fact, that a large number of foreign taxpayers file their tax forms in Thailand, this step was overdue. *Source: Bangkok Post*

4.) Thailand named ninth best for retirees

Thailand is often depicted by climate, sun, beach, and tropical weather all year round. If these stereotype phrases sound familiar to you, there is a new twist here. Thailand is ranked eighteenth out of 185 countries on the ease of doing business, according to the World Bank latest reports from June 2012. But it is astonishing to see that Thailand is even doing better on another scale when it comes to retirement.

According to a survey by “International Living”, Thailand ranks ninth in the world as a retirement haven. The retirement-oriented magazine said that Malaysia and Thailand are the two Asian destinations in the top ten. It was a surprise that Ecuador was ranked as number one with 91.9 points. In summary, there are several important categories, including healthcare, real estate, climate, cost of living, entertainment and amenities. The guide was prepared through interviews and surveys and interestingly, looked at everything from Internet penetration to the price of a beer, how easy it is to make friends, as well as discounts and benefits for retirees.

Source: The Nation, The World Bank, International Living

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