

Advantage

Tax and business law intelligence for international companies



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2009 ECONOMIC STIMULUS Summary of the Government's Tax Measures

RSM Advantage, as a publication that aims to provide intelligence to international companies in Thailand, has unraveled the political rhetoric and gone beyond the headlines of the Government's stimulus packages to provide you with what-you-need-to-know regarding the tax changes under these.

Included in the announcements of the Bt 115 billion of additional spending package and the Bt 40 billion tax benefit package aimed at boosting the economy, the Government has called for the following tax changes to be introduced (retrospective from 1 January 2009).

You should note that none of these tax changes have yet been enacted into law, and such enactments will generally take a few months in Thailand.

Property Purchasers

The packages announce a new personal income tax deduction for property purchasers. For purchasers of property in the 2009 financial year, a tax deduction is available for principle payments made against a loan taken out to purchase a home.

Under existing rules, a tax deduction against interest payments (up to Bt 100,000 per year) is permitted for mortgage loans taken out to purchase a home. This existing rule for interest deductions continues for the previous homebuyers, but for this year's homebuyers purchasing a home and entering into a mortgage loan an additional tax deduction is permitted against home loan principle payments (up to Bt 300,000 per year). That is, for purchasers of homes during 1 January 2009 to 31 December 2009, the maximum personal income tax deductions are:

- Bt 100,000 against home loan interest payments; and
- Bt 300,000 against home loan mortgage principle payments.

Sole Traders and Partnerships

For sole traders and persons conducting business operations as ordinary (unregistered) partnerships, the Government will decrease their personal income tax liabilities.

Under the existing rules, for sole traders and ordinary partnerships having gross income (before expenses) of Bt 60,000 or more, the minimum amount of tax is 0.5% of the gross income earned.

For the 2009 financial year onwards, sole traders and ordinary partnerships having gross income (before expenses) of Bt 1,000,000 or more will be subject to the minimum amount of tax of 0.5% of gross income.

Community Enterprises

For the 2009 and 2010 financial years, a non-juristic community enterprise (established under the Private Communities Act) will be entitled to an additional Bt 600,000 of tax-free income.

That is, the existing tax-free income amount allowed to community enterprises (which was awarded as part of the Government's 2008 stimulus package) will be increased from Bt 1.2 million to Bt 1.8 million.

Venture Capital Companies

For venture capital companies, the Government will extend the exemption of income tax on gains arising from their share transfers in SMEs, and will relax the existing rule in relation to a venture capital company's initial capital requirements.

The existing rule requires a venture capital company to have at least one-half of its registered capital of Bt 200 million paid up immediately and the remainder paid up within 3 years of the date of registration.

Debt Restructuring & Partial Business Transfers

The Government has announced the reintroduction of exemptions for income tax, value added tax, specific business tax and stamp duty on income arising from asset transfers under debt restructurings and partial business transfers.

The tax exemptions, which were introduced following the 1997 economic crisis, will now be reintroduced for a two years period (1 January 2009 to 31 December 2010) following the 2008 economic crisis, as follows:

- Exemption from income tax on income that arises from a discharge of debts owing to a financial institution under the debt restructuring rules of the Bank of Thailand;
- Exemption from income tax, value added tax and specific business tax on income that arises from a transfer of property under the debt restructuring rules of the Bank of Thailand; and
- Exemption from value added tax and specific business tax on income that arises from property transfers to an affiliated company under a partial business transfer.

Staff Seminars & Meetings

The Government has also announced that it will allow companies to claim costs of seminars and meetings at the rate of twice the amount incurred in 2009.

The existing rules that permit double tax deductions for the costs for attendance at training and education courses will now be extended to costs for attendance at seminars and meetings, but for 2009 only.

Social Security Contributions

The Government's announcement also includes their proposition to cut the rate of required contributions to the Social Security Fund by half from the current 5% contribution rate to a contribution rate of 2.5%.

This proposal is intended to apply for the 2009 year only whereby each of the contributions to the Social

Security Fund by the employer and the employee will be limited to just 2.5% of the maximum salary amount (for SSF purposes) of Bt 15,000, that is, a maximum amount of Bt 375 per month per employee.

The New Property Tax Proposal

The new Government is additionally proposing a new Property Tax for Thailand.

RSM Advantage should like you to note that this is not actually "new". The Property Tax proposal has been on the negotiating table for about 20 years now, but it has never been able to get passage through the Parliament.

So, the Government's proposal is really to again try to repeal the current House and Land Tax (which was enacted in 1932) and replace it with a Property Tax.

The tax base under the existing House and Land Tax is very narrow. It taxes only those properties that are rented or leased. The rate of tax payable is 12.5% of the annual rental or lease income value.

The tax base under the new Property Tax proposal will include virtually all properties, and the tax rates are proposed to be as follows:

- Property for general/commercial purposes, 0.5% of the property's value;
- Property for residential purposes, 0.1% of the property's value; and
- Property for agricultural purposes, 0.05% of the property's value.

As an inducement to owners of undeveloped land to develop their landholding, it is proposed for the 0.5% rate to double every three years to a maximum rate of 2% after six years.

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