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DOING BUSINESS GUIDE IN THAILAND

prepared by

Nathee Audit Office Company Limited

May 2011

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1. The Country

1.1. Geographical information

Capital city: Bangkok

Population: 65m population (7m in Bangkok)

Location: The heart of Southeast Asia with 76 provinces in 4 natural regions

Language: Thai (English is spoken and understood throughout much of Thailand)

Religious: 95% Buddhist, 5% others

Climate: Tropical climate w/ 3 distinct seasons - hot and dry, rainy, and cold

Time: +7 hours GMT

1.2. Economy

Thailand is an export dependent, contributing for 60% of total GDP that stood approximate 270 billion USD per annual. Main product of Thailand Consist primarily of agricultural products, fish and rice, as well as textiles, rubber, automobiles, jewelry, and computers/electronic appliances.

Thailand is one of the premier tourist destinations in the world, accounting at 80 billion USD revenue from tourism. There were more than 13m visitors in 2010, and is expected to reach 15m in 2011. Major tourists are from East Asia continent (e.g. ASEAN, China, Hong Kong, Japan, Korea, Taiwan and etc.)

Foreign investment mainly from United States, Japan, the European Community and China

1.3. Currency and Banking

Referred to the Bank of Thailand, T/T Exchange rate as at 31 May 2011 is as follows;

USD 1 = THB 30.0632

EUR 1 = THB 43.1172

JPY 100 = THB 36.9114

Bank notes comprise of 20 THB in green, 50 THB in Blue, 100 THB in Red, 500 THB in purple and 1,000 THB in Grey colour.

2. Form of Business Enterprise

There are several forms of business enterprise that can be incorporated. However, most common operating forms of business in Thailand are as follows;

2.1. Limited liability companies

There are 2 types of limited liability companies, which are the private limited company and the public limited company.

2.1.1. The private limited company shall have minimum 3 shareholders in order to form a company. Capital will be divided into shares with equal share price. Shareholders have limited liability for not over the paid-up capital portion.

There is no condition for minimum registered capital of the private limited company, however, the shareholders need to remit at least 25% of the registered capital at the incorporated date.

Incorporation process for the private limited company takes approximately 1-2 weeks, with 5,500 THB (\$180) per 1m capital for government registration fees

Private limited company must arrange one shareholders meeting within 6 month after incorporation date and consequently at least once per annual.

When distributing the dividend, the company have to appropriate at least 5% of profit until the appropriate retained earning reach 10% of company's capital. This portion of retained earnings cannot be distributed until the company is liquidated.

Company have to prepared, audit and file balance sheet and income statement every year. Financial statements need to be audited and approved by company's shareholders within 120 days and file to the Department of Business Development within 150 days after the end of company fiscal year.

Company that has 50% or more of its shares held by foreigners is required of having business license under requirements in Foreign Business Act before it can do business transaction.

2.1.2. The public limited company shall have at least 15 shareholders in order to form a company. There must be more than 5 directors in the company, which at least half of the directors must stay in Thailand.

Ordinary persons of 15 persons or above register the memorandum of association and prepare the prospectus for people to buy shares or when the persons who start up the company reserve to buy all the shares as specified in the memorandum of association, they shall call for the meeting for the company's establishment. Afterwards, the persons who start up the company must submit all the affairs and documents to the directors elected in order to register the company's establishment.

Public limited company who expects to be listed in the Stock Exchange of Thailand shall comply with rules and regulation under Securities and Exchange Commission.

2.2. Partnership

Partnership can be divided into 2 types as follows;

2.2.1. Ordinary partnership; is that kind of partnership in which all the partners are jointly and unlimitedly liable for all the obligations of the partnership. The ordinary partnership may consider whether or not to register as juristic person.

- Non-registered Ordinary Partnership with no legal status as the juristic person
- Registered Ordinary Partnership with legal status as the juristic person

2.2.2. Limited partnership

Limited partnership is that kind of partnership which consists of;

- One or more partners whose liability is limited to such amount as they may respectively undertake to contribute to the partnership, and
- One or more partners who are jointly and unlimitedly liable for all the obligations of the partnership

However, a limited partnership must be managed only by the partners with unlimited liability.

2.3. Branches of foreign entities

Foreign entity may conduct their business in Thailand through the incorporation of a branch office, which the mother company will be liable for any obligation incurred by its branch.

Branch office of foreign entity has to apply for business license under requirements in Foreign Business Act before it can do business transaction.

2.4. Representative office

Thai representative offices require Foreign Business License in order to operate. It is important to clarify beforehand for the constitution of income which is and which is not subjected to Thai taxes. In order to form a representative office, at least one of the following purposes would need to be sought for the purposes of non-profit activities.

General characteristic of the representative office is as follows;

- Not derive any revenue from its service and not subject to corporate income tax, in accordance with revenue code.
- Must receive subsidies for office expenses from the head office only.
- Cannot accept purchase orders, make sales offers or engage in business negotiations with any person.

There are certain types of business eligible for representative office as follows;

- Procurement of supply sources for goods and services in Thailand for the head office or affiliated /group companies.
- Inspection and control of the quality and volume of goods by the head office or affiliated /group companies or hired by the head office or affiliated /group companies for production in Thailand.
- Consultation on various aspects pertaining to the goods distributed by the head office or affiliated/ group companies to the distributing agent or consumer of goods.
- Dissemination of various information pertaining to new goods or services offered by the head office or affiliated/group company

- Reporting business movements in Thailand to the head office or affiliated/group company

2.5. Regional operating headquarter (ROH)

General scope for ROH is the coordination and supervision of operations of branch offices or subsidiary companies situated in the same region on behalf of the head office including consultation and management services of the following;

- Personnel training and development.
- Financial management.
- Control of marketing and sales promotion planning.
- Product development.
- Research and development service.

3. Taxation

3.1. Personal income tax (PIT)

Income chargeable to the PIT is called “assessable income”. The term covers income both in cash and in kind. Therefore, any benefits provided by an employer or other persons, such as a rent-free house or the amount of tax paid by the employer on behalf of the employee, are also treated as assessable income of the employee for the purpose of PIT.

Assessable income under PIT consists of;

- income from personal services rendered to employers;
- income by virtue of jobs, positions or services rendered;
- income from goodwill, copyright, franchise, other rights, annuity or income in the nature of yearly payments derived from a will or any other juristic Act or judgment of the Court;
- income in the nature of dividends, interest on deposits with banks in Thailand, shares of profits or other benefits from a juristic company, juristic partnership, or mutual fund, payments received as a result of the reduction of capital, a bonus, an increased capital holdings, gains from amalgamation, acquisition or dissolution of juristic companies or partnerships, and gains from transferring of shares or partnership holdings;
- income from letting of property and from breaches of contracts, instalment sales or hire-purchase contracts;

- income from liberal professions;
- income from construction and other contracts of work;
- income from business, commerce, agriculture, industry, transport or any other activity not specified earlier

Certain deductions and allowances are eligible in the calculation of the taxable income. Taxpayer shall make deductions from assessable income before the allowances are granted.

Personal income tax rates applicable to annual taxable income (after deduction and allowance) are as follows.

- 0-150,000 THB is exempt from PIT
- 150,001 – 500,000 THB is at 10%
- 500,001 – 1,000,000 THB is at 20%
- 1,000,001 – 4,000,000 THB is at 30%
- Income portion over 4,000,001 is at 37%

3.2. Corporate income tax (CIT)

Thai company generally pays tax at 30% of its net profit. However, some types of company are entitled to a rate reduction as follows.

3.2.1. Small businesses with less than 5 million THB capital (appr 170k USD) will entitle for a progressive corporate income tax

- 15% of net profit portion that is less than 1 million THB
- 25% of net profit portion between 1-3 million THB
- 30% of net profit portion over 3 million THB

3.2.2. Company registered in the Stock Exchange of Thailand (SET) will entitle

- 25% of net profit portion under 300 million THB
- 30% of net profit portion over 300 million THB

3.3. Valued added tax (VAT)

Valued added tax, or so-called ‘sales tax’, is a fixed 7% indirect tax added up on the value added of each stage of production and distribution. In Thailand, VAT is realized at different point for commodity and service.

3.3.1. VAT for commodity consumption is taxable at the date that the product is transferred to another party.

3.3.2. VAT for service consumption is taxable at the payment date.

3.4. Withholding taxes (WHT)

Generally, juristic person providing services is subjected for withholding tax deduction when the service fee is being paid. Withholding tax rates vary depending on type of service. For example, WHT rate for general service is 3%, WHT rate for rental is 5% and WHT rate for advertisement service is 2%.

Withholding tax deduction is considered as corporate income tax paid in advance, and can be used as tax credit for annual corporate income tax filing.

A foreign company that does not carry on business in Thailand will be subject to withholding tax on certain categories of income derived from Thailand. The withholding tax rates may be further reduced or exempted depending on types of income under the provision of Double Taxation Agreement. For example,

- 10% for remittance of profit
- 10% for dividend
- 15% for other income such as interests, royalties, capital gains, rents and professional fees

Currently, Thailand has concluded tax treaty agreements with 51 countries: Armenia, Australia, Austria, Bangladesh, Bahrain, Belgium, Bulgaria, Canada, China P.R., Cyprus, Czech Republic, Denmark, Finland, France, Germany, Hong Kong, Hungary, India, Indonesia, Israel, Italy, Japan, Korea, Laos, Luxembourg, Malaysia, Mauritius, Nepal, the Netherlands, New Zealand, Norway, Oman, Pakistan, the Philippines, Poland, Romania, Seychelles, Singapore, Slovenia, South Africa, Spain, Srilanka, Sweden, Switzerland, Turkey, Ukraine, United Arab Emirates, United Kingdom of Great Britain and Northern Ireland, United States of America, Uzbekistan, and Vietnam.

3.5. Specific business tax (SBT)

Specific Business Tax (SBT) is another kind of indirect tax introduced in 1992 to replace Business Tax. Certain businesses that are excluded from VAT will instead be subject to SBT. Businesses that are subject to SBT include

- Banking, Financial and similar business (3%)
- Life Insurance (2.5%)
- Pawn Brokerage (2.5%)
- Real Estate (3%)
- Any other business specified by the Royal Decree i.e. business engages in repurchasing agreement (REPO) and factoring (3%)

4. Investment Incentive

There are numerous government agencies that support foreign investors. Most common promoters are as follows;

4.1. Board of Investment (BOI)

Through the Board of Investment, the government offers a range of tax incentives, support services and import duty exemptions or reductions to an extensive list of promoted activities.

Companies receiving investment promotion privileges from the Board of Investment are not subject to foreign equity restrictions in the manufacturing sector, and there is no local content requirement nor export requirement, as Thailand's investment regime is in total compliance with WTO regulations.

The Board of Investment also participate as the One-Stop Service Center for Visas and Work Permits, which enables foreign staff of BOI-promoted companies to significantly ease the process to obtain work permits and long-term visas.

In general, BOI provide 2 kinds of incentives to promote for foreign investment project.

4.1.1. **Tax incentive** includes exemption or reduction of import duties and corporate income tax

4.1.2. **Non-tax incentive** includes permission to bring foreign workers, to remit foreign currency aboard, and to own land.

- 4.2. Reduction of or exemption from import duties from member countries of
- 4.2.1. The Association of Southeast Asian Nations (ASEAN); represented by ASEAN Free Trade Area to encourage the lowering of intra-regional tariffs through the Common Effective Preferential Tariff.
 - 4.2.2. Thailand and Australia Free Trade Agreement (TAFTA); Australian business is encouraged to take a close look at the opportunities created by the TAFTA to give Australian products a competitive edge
 - 4.2.3. Japan-Thailand Economic Partnership Agreement (JTEPA); JTEPA classifies several commodities to achieve lower rate of custom duty and anti-dumping duty
- 4.3. Tax exemption for Representative office; A representing agent of foreign entity whose activity is non-profit generated and limited under permission of Foreign Business Act could be exempted from VAT and Corporate income tax.
- 4.4. Fixed 10% CIT for ROH; During 2010, Thai government announced a tax promotion that the authorized agent acting as a Regional Operating Headquarter (ROH) in Thailand will be entitled for a fixed 10% corporate income tax, calculated from its service fees providing to other regional branch locations (normal CIT is progressive rate up to 30%).

5. Contact Detail

Any inquiry regarding doing business in Thailand can be directed to the following contact

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