PwC calls for Thai tax reforms to beef up growth, competition as AEC nears

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PwC Thailand called for clarification of Thailand's tax reforms to enhance the country's competitiveness, protect its share of tax revenue and redistribute income.

Overall sentiment in Thailand, Southeast Asia's second-biggest economy after Indonesia, is gradually picking up after the global financial crisis and political discord, which prompted the local economy to contract earlier this year.

Despite slowing global growth and a recent cut in Thailand's GDP forecast, the country is expected to offer opportunities for growth and investment over the long term, according to PwC, part of the world's biggest network of corporate audit, tax and advisory firms.

Thai businesses must keep pace with changes and seize opportunities to ensure sustainability as the country undergoes tax reforms, Thavorn Rujivanarom, Lead Partner at PwC Tax & Legal Consultants Ltd., said during PwC's 16th annual conference: Maximise Shareholder's Value through Effective Tax Planning 2015 – Structuring for growth – 'Adding value while continuing to manage risks.'

"While there have been talks at government levels about restructuring the tax structure to bridge income disparities and boost revenue collection, it's very important that the public and business community understand thoroughly the impact and the risks the changes will have on their businesses," Thavorn said.

"These challenges are not only faced by Multinational Corporations operating in Thailand, but also by those looking to expand overseas," he said. The tax structure and regulations are increasingly complex, prompting companies to spend an inordinate amount of time on tax compliance.

According to Thavorn, tax-planning activities of MNCs around the world, including Thailand, have increasingly become the subject of scrutiny and criticism as governments globally are looking for ways to prevent tax avoidance in cross-border transactions, including thin capitalisation rules.

Other reforms have been discussed, including introducing new taxes such as a land tax and inheritance tax, and improving the current system with measures to increase the Value Added Tax (VAT) rate and review of withholding tax.

With the launch of the single-market Asean Economic Community (AEC) in early 2016, Thavorn said despite becoming a common market, there will be no common tax regime among the members. Each individual country member would continue to enforce its local tax laws and policies to compete and attract foreign fund flows, perhaps at a greater level.

Immoral tax planning is no longer an issue just for developed countries but also a concern of emerging economies. Measures to limit Base Erosion and Profit Shifting (BEPS) and to close loopholes that exist in the current tax regimes, for instance, need to be implemented, he said.

Thailand's junta government, led by the National Council for Peace and Order (NCPO), has been active in pursuing reforms including the scrapping of the rice-pledging scheme and proposals including the revision of property income taxes and inheritance taxes.

Thavorn said Thailand's reduced corporate income tax rate of 20%, now the second lowest among ASEAN members after Singapore's 17%, is appropriate to encourage overseas investment.
"The fact that it applies only to the next tax year, however, will be a challenge," he said. "This short-term policy may not be enough to give investors the confidence to invest. So, a clearer direction on the long-term tax policy and tax expenditure is essential."

To take advantage of the AEC, Thavorn said it's crucial for the authority to truly promote Thailand as a strategic location for international businesses. Tax incentives for Regional Operating Headquarters (ROH) are already in place, but in practice, the application and implementation of these incentives is still troublesome.

Currently, there are no specific tax incentives for treasury centres, and this is something the government should be looking into.
Thailand's VAT and withholding tax
Thailand approved an extension of the 7% VAT rate until 30 September next year. The 10% VAT rate is expected to follow.
Thavorn said that the increase of indirect tax would only likely constrain domestic consumption in the short term and have a limited impact on the overall economy.
"The objective of reverting to the higher rate is to collect more tax revenue and to target the rich, who are likely to consume more," Thavorn said.
To a degree, the 10% VAT rate would also be a good start in preparing for the AEC as widening the tax revenue base from VAT would help draw investment into the country when comparing with neighbouring peers.
"An increase in the VAT rate would benefit the government as it contributes to the largest portion of the total revenue from the Revenue Department," he said, adding for more than a decade Thailand has kept a 7% VAT rate – which is similar to Singapore's level.

The withholding tax structure also needs to be reformed, Thavorn said. There has been discussion as to whether the multiple withholding tax rates currently in place should be harmonised. In addition, with the reduced corporate income tax rate, consideration is being given to whether the current withholding rates are too high.

To further attract foreign investment, the Board of Investment of Thailand's criteria for investment incentives are being reviewed. Some existing eligible activities that are labour-intensive, low value-added, use low technology or cause environmental problems will be removed from the promoted activity list.

"With the aim of the government's agenda to foster fairness, narrow disparities and increase government coffers, we believe that the structural tax reforms to come including inheritance, capital gains and property tax will widen the tax revenue base. This would ultimately pave the way to fairer, more competitive and more modernised tax reforms," Thavorn concluded.

"That said, what's equally important are the issues on transparency and efficiency of tax allocation that should always be taken into account."