Bangkok Post

Section: ASIA FOCUS/First Page
Date: Monday 10 August 2015
Volume: - No: - Page: 1(Left), 3
Bangkok Post
Circulation: 70,000
Ad Rate: 1,500
Col.Inch: 178.43 Ad Value: 267,645 PRValue (x3): 802,935 Clip: Full Color
Headline: THE CASE FOR A BASE

THE CASE FOR A BASE

Thailand sweetens its incentives in a bid to emulate the success of Singapore and Hong Kong in attracting companies to set up international headquarters. By **Nareerat Wiriyapong**

● Singapore and Hong Kong have long been established as ideal locations for regional headquarters of companies expanding in Asia, thanks to favourable tax regimes, little red tape and more internationalised financial systems than their Asian peers.

But that doesn't mean there is no room for others to compete. Thailand over the past four decades has become a manufacturing hub for many industries for Asean and beyond. For international companies with manufacturing centres in Thailand, setting up a regional headquarters in the country seems a logical way to better communicate with their customers here.

Thailand also has geographical advantages, located in the middle of a Southeast Asian market of 600 million people and next door the vast market of China. Besides, Thailand's cost of living is lower than that of Singapore and Hong Kong. Realising the untapped potential, Thailand is making a fresh attempt to become an international headquarters and trading centre.

The new regime, which the cabinet endorsed in December 2014, is a modification of the Regional Operating Headquarters (ROH) programme that was first introduced in 2002 and relaunched with changes in 2010. For a start, it has been given a more ambitious name: the International Headquarters (IHQ) and International Trading Centre (ITC) programme.

Under the new rules, the scope of activities provided by an IHQ to associated enterprises, both in Thailand and overseas, has been expanded to cover procurement of raw materials and parts including services related to an ITC as well as a treasury centre (TC).

The ROH regime, meanwhile, allows supporting services such as research and development (R&D), technical support, marketing and sales promotion, human resource management and training, economic and investment analysis, financial advisory services as well as credit management and control.

Tax benefits provided by the Board of Investment (BoI) include exemption from import duty on machinery if it is used only for R&D and training activities, exemption of import duty on raw materials and parts used in production for export. Non-tax incentives include permission for majority or total foreign ownership, to bring in skilled personnel and experts to work in investment promotion activities, and ownership of land.

> **"If this personal income tax reduction [offered to expats] is also provided to Thai employees working at IHQs, it would tremendously help promote Thailand as Asean's hub for shared services centres"**
>
> BENJAMAS KULLAKATTIMAS
> KPMG Thailand

To qualify, an IHQ must have paid-up capital of at least 10 million baht, and must supervise branch or associated enterprises that are located overseas in more than in one country, compared with at least three in the ROH scheme.

Additional tax benefits, including personal income tax reductions for expatiates are also granted to IHQ and ITC operations by the Revenue Department.

During the first five months of this year, the BoI received four IHQ applications for investment promotion worth a total of 149 million baht, and 14 ITC applications valued at 177 million baht.

SET-listed Thai Union Frozen Plc (TUF), the world's largest tuna company, recently obtained a TC licence from the Finance Ministry and the Bank of Thailand to set up a global treasury centre in Thailand. The centre will mainly handle liquidity, foreign exchange risk management and funding activities, playing an important role in the IHQ in Thailand.

According to the auditing and consulting firm PwC Thailand, the IHQ rules provide significant opportunities not only for foreign multinationals operating in the region but also for Thai companies, which are increasingly trading and investing outside their home country.

Thai companies investing overseas have faced several obstacles to repatriating dividend income to Thailand without attracting double taxation. Subject to meeting certain conditions, such dividends may be exempt from further corporate income tax in Thailand. However, PwC noted that the rules are not sufficiently flexible to address investments in modern structures.

The ROH programme has attracted only about 150 headquarters operations to Thailand in its 13 years of existence. This compares unfavourably with the main regional centres of Singapore and Hong Kong, each of which is home to the headquarters of well over 1,000 companies. Even Malaysia outshines Thailand, with some 500 company headquarters, PwC said.

CHANGES NEEDED

The IHQ rules are designed to support Thailand's goal to move toward modern and more value-added business activities to help shore up declining exports and offset a growing shortage of labour. As well, the programme comes at a time when international companies are keen to reap the benefits of the Asean Economic Community (AEC) that comes into effect in 2015.

As a safe investment destination with a low cost of living, Thailand has attracted a number of companies in sectors such as automobiles, electronics and petrochemicals to set up manufacturing centres here, said Deputy Prime Minister Pridiyathorn Devakula.

Bangkok Post	Section: ASIA FOCUS/First Page			
	Date: Monday 10 August 2015			
	Volume: -	No: -	Page: 1(Left), 3	
Bangkok Post	Col.Inch: 178.43	Ad Value: 267,645	PRValue (x3): 802,935	Clip: Full Color
Circulation: 70,000				
Ad Rate: 1,500	Headline: THE CASE FOR A BASE			

"[As a result], the country enjoyed export growth over the past four decades but due to shortages of labour and higher wages, some export items have lost competitiveness and experienced a drop in shipments especially in the past few years," he said.

"Exports turned negative in 2013-14 and it is highly likely that [growth] will remain negative this year. Change is needed to improve export performance."

While admitting that the ROH programme has yet to prove to be a smash hit, MR Pridiyathon pointed out that the new regime would enable Thailand to become one of the trading hubs in Southeast Asia.

"ROH has not been as successful as expected and many companies and investors still opt for Singapore and Hong Kong. That was due to the limited scope of ROH activities and the same level of incentives that already existed in Singapore and Hong Kong," he said.

Asean including the emerging CLMV markets — Cambodia, Laos, Myanmar, and Vietnam — can serve along with China as a vast production base and supply chain with a greater variety of trading activity using available infrastructure, especially road networks.

Thailand, meanwhile, is preparing to upgrade its rail network to facilitate cargo shipments as part of an infrastructure development plan for 2015-22 worth US$60 billion (1.9 trillion baht). Of the existing 4,043 kilometres of rail lines, only 358 km are double-track routes but the government aims to increase that length to 2,043 km. Construction of the first 900 km is due to start this month and the rest in March 2016.

As well, the agreement signed last month by Thailand, Myanmar and Japan to develop the massive Dawei project in Myanmar will enhance Thailand's position as a regional hub with the Dawei deep-sea port as an outlet on the Andaman Sea.

The IHQ and ITC programme will also

•Continued on Page 3

• Continued from page 1

THE CASE FOR A BASE

benefit Thai companies that have expanded cross-border activity to the CLMV nations and other Asean neighbours. Foreign direct investment (FDI) to the CLMV markets, according to MR Pridiyathorn, totalled $8.1 billion in 2014, up 50% from 2013. Thai companies such as Siam Cement Group (SCG), Srithai Suprware and Banpu have established a deep presence in other Asean countries while those expanding beyond Asean include Charoen Pokphand (CP) Group, Thai Union Frozen Products (TUF), Mitr Phol, and PTT.

"With the IHQ and ITC programmes, Thailand can become a trading nation for the region with more competitiveness than industries," MR Pridiyathorn noted.

RIGHT TIME, RIGHT MOVE

International experts and businessmen agree the IHQ programme is the right move for Thailand but say it needs to be fine-tuned in order to draw investors' interest away from Singapore, which has been offering the same or better incentives for 20 years along with a more mature financial system.

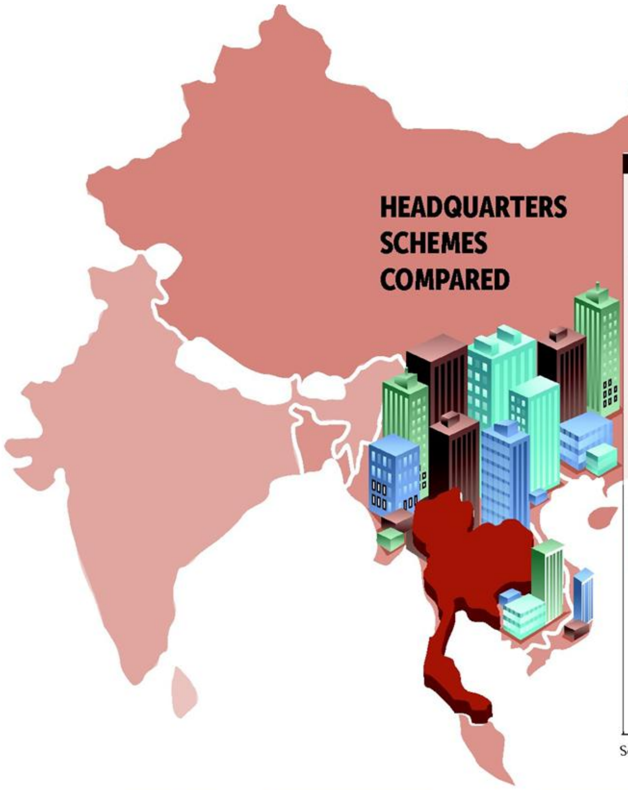
David Sandison, the Singapore-based international tax specialist at the consulting firm Grant Thornton, said the main thrust of Thailand's newest IHQ initiative seemed to follow Singapore's successful path by combining the incentives or at least co-marketing them, with the ITC as a new element.

"This latest gesture seems to be a move to shadow Singapore's holistic trend and is clearly a sign that the (Thai) government is moving on a right path," he said.

"Obviously, there is much more than just tax incentives involved in deciding the most appropriate place to set up a headquarters company, but on a stand-alone basis, Thailand seems to be in good shape with what is on offer so far."

Benjamas Kullakattimas, a partner and Head of Tax at KPMG Thailand, says the regime could be more beneficial in promoting Thailand as a regional hub if Thai employees of qualifying businesses could gain personal income tax

Bangkok Post	**Section:** ASIA FOCUS/First Page			
	Date: Monday 10 August 2015			
	Volume: -	**No:** -	**Page:** 1(Left), 3	
Bangkok Post	**Col.Inch:** 178.43	**Ad Value:** 267,645	**PRValue (x3):** 802,935	**Clip:** Full Color
Circulation: 70,000				
Ad Rate: 1,500	**Headline:** THE CASE FOR A BASE			



HEADQUARTERS SCHEMES COMPARED

Benefits/requirements	Thailand ROH	Thailand IHQ (new)	Singapore HQ	Malaysia
• Corporate income tax rate	0% on income from overseas affiliate, 10% for co in Thailand	0% on income from overseas affiliate, 10% on income from affiliate in Thailand	15% on income from overseas affiliate (reduced to 0% subject to meeting requirements below)	10% on income from overseas affiliate (reduced to 0-5% subject to meeting requirements)
• Tax scheme	15 years	15 years	3 years+2 years extension	5-year extension
• Other tax and non-tax incentives	-	personal income tax exemption for foreign staff, business tax exemption for interest provided to affiliate, land ownership rights, up to 100% foreign ownership	-	-
• Paid-up capital	B10m or US$294,000 (each accounting period)	B10m or US$294,000 (every accounting period)	S$0.2m end of year 1 and $0.5m end of year 3	2.5 m ringgit (US$657,000)
• No. of local affiliates under local HQ	At least 3	At least 1	At least 3 by year 3 of the scheme	3-5 depending on scheme tier (at least 3 qualifying services to be carried out by HQ)
• Annual spending in local economy	-	B15m ($441,000)	S$2m by year 3, additional $3m in cumulative spending in the first 3 years	3-10m ringgit ($0.8-2.6 m)
• Employment	Usually 10 staff are allowed, but applications for more staff can be reviewed	Min salary expense of B2.4m, 10 staff allowed but applications for more can be reviewed	75% skilled staff throughout the incentive period, additional 10 professionals in Singapore by year 3; average salary of S$100,000/yr for top 5 execs by year 3	15-50 high-value jobs, including 3-5 key positions; 50% of high-value jobs for Malaysians by year 3; min monthly salary of 25,000 ringgits; training & development plan for locals.

Source: Singapore EDB, Thai BoI and Revenue Dept, Malaysian MIDA, HSBC

POSTgraphics

benefits as well.

"Unfortunately, the personal income tax reduction does not extend to Thai employees working at an IHQ," she wrote in a recent report.

Now many Thai companies are expanding their businesses outside Thailand, especially into other Asean countries where they can utilise the privileges provided under the AEC. They may employ both Thai and non-Thai workers to render supporting services for group companies both in and outside of Thailand.

"Thus, an IHQ should be a suitable scheme for them to centralise supporting functions in Thailand," wrote Ms Benjamas. "If this personal income tax reduction is also provided to Thai employees working at IHQs, it would tremendously help promote Thailand as Asean's hub for shared services centres."

Rolf-Dieter Daniel, president of the European Association for Business and Commerce (EABC), said a number of European companies including banks were interested in setting up regional headquarters and ITC operations in Thailand, where the cost of living is cheaper than Singapore.

However, he said the minimum operating expense requirement was quite high, especially for small and medium enterprises (SMEs). To qualify for ITC approval, applicants must have minimum operating expenses paid to recipients in Thailand of 15 million baht.

If the ITC fails to meet such qualifications in any accounting period, it will be disqualified for all tax benefits in those periods, including the tax benefits for its expats.

Stanley Kang, chairman of the Joint Foreign Chambers of Commerce (JFCCT), praised Thailand's move in launching the IHQ, saying it was a good start to becoming a trading nation.

But for the programme to be truly successful, he said, authorities need to foster greater efficiency at government agencies and a more open-minded culture in society to embrace changes.

"There are companies considering using Thailand as a centre to do business within Asean," he said, but noted that concrete actions are needed to make them feel more confident in the policy.

"In Singapore and Hong Kong, things are done very fast," said Mr Kang, referring in particular to the absence of bureaucratic red tape.