SBC BUSINESSLINK

Introduction to Thailand's Taxation System

PERSONAL INCOME TAX

Personal Income Tax (PIT) is a direct tax levied on income of a person. A person means an individual, an ordinary partnership, a non-juristic body of person, a deceased person and an undivided estate. In general, a person liable to PIT has to compute his tax liability, file tax return and pay tax, if any, accordingly on a calendar year basis.

1. Taxable Person

Taxpayers are classified into "resident" and "non-resident". "Resident" means any person residing in Thailand for a period or periods aggregating more than 180 days in any tax (calendar) year. A resident of Thailand is liable to pay tax on income from sources in Thailand on a cash basis, regardless where the money is paid, as well as on the portion of income from foreign sources that is brought into Thailand. A non-resident is, however, subject to tax only on income from sources in Thailand.

2. TAX BASE

2.1 Assessable Income

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 is divided into 8 categories as follows:

(1) income from personal services rendered to employers;

(2) income by virtue of jobs, positions or services rendered;

(3) income from goodwill, copyright, franchise, other rights, annuity or income in the nature of annual payments derived from a will or any other juristic Act or judgment of the Court;

(4) 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;

(5) income from letting out of property on hire and from breaches of installment sales or hire-purchase contracts;

(6) income from liberal professions;

(7) income from construction and other contracts of work;

(8) income from business, commerce, agriculture, industry, transport or any other activity not specified earlier.

2.2 Deductions and Allowances

Certain deductions and allowances are allowed in the calculation of the taxable income. Taxpayers shall make deductions from assessable income before the allowances are granted. Therefore, taxable income is calculated by:

TAXABLE INCOME = assessable income - deductions - allowances

::Deductions allowed for the calculation of PIT

Type of Income	Deduction
Income from employment	40% but not exceeding 60,000 Baht
Income received from copyright	40% but not exceeding 60,000 Baht
Income from letting out of property on hire	
- Building and wharves	30%
- Agricultural land	20%
- All other types of land	15%
- Vehicles	30%
- Any other type of property	10%
Income from liberal professions	30% except for the medical profession where 60% is allowed
Income derived from contract of work whereby the contractor provides essential materials besides tools	actual expense or 70%
Income derived from business, commerce, agriculture, industry, transport, or any other activities not specified earlier	actual expense or 65-85% depending on the types of income

::Allowances (Exemptions) allowed for the calculation of PIT

Types of Allowances	Amount
Personal allowance	
- Single taxpayer	30,000 Baht for the taxpayer
- Undivided estate	30,000 Baht for the taxpayer's spouse

- Non-juristic partnership or body of persons	30,000 Baht for each partner but not exceeding 60,000 Baht in total
Spouse allowance	30,000 Baht
Child allowance (child under 25 years of age and studying at educational institution, or a minor, or an adjusted incompetent or quasi-incompetent person)	15,000 Baht each (limited to three children)
Parents allowance (parents over 60 years of age with income less than 30,000 Baht)	30,000 Baht each
Old age allowance (over 65 years of age)	190,000 Baht income exemption each
Education (additional allowance for child studying in educational institution in Thailand)	2,000 Baht each child
Life insurance premium paid by taxpayer or spouse	Amount actually paid but not exceeding 50,000 Baht each
Approved provident fund contributions	Maximum allowance (exemption) of 300,000 Bath, but not exceeding 15% of income
Long term equity fund	Maximum allowance (exemption) of 300,000 Bath, but not exceeding 15% of income
Home mortgage interest	Amount actually paid but not exceeding 50,000 Baht
Social insurance contributions paid by taxpayer or spouse	Amount actually paid each
Charitable contributions	Amount actually donated but not exceeding 10% of income after standard deductions and allowances

3. Tax Rates

3.1 Progressive Tax Rates

Personal income tax rates applicable to taxable income are as follows.

::Tax rates of the Personal Income Tax

Taxable Income	Tax Rate (%)	Tax Amount	Accumulated Tax
0 - 80,000 (before 2004)	Exempt	-	-
0 - 100,000 (2004 onwards)	Exempt	-	-
100,001 - 500,000	10	40,000	40,000
500,001 - 1,000,000	20	100,000	140,000
1,000,001 - 4,000,000	30	900,000	1,040,000
4,000,001 and over	37		

In the case where income categories (2) - (8) mentioned in 2.1 are earned more than 60,000 Baht per annum, taxpayer has to calculate the amount of tax by multiplying 0.5% to the assessable income and compare with the amount of tax calculated by progressive tax rates. Taxpayer is liable to pay tax at the amount whichever is greater.

CORPORATE INCOME TAX

Corporate Income Tax (CIT) is a direct tax levied on a juristic company or partnership which is established under Thai or foreign law and carries on business in Thailand or derive certain types of income from Thailand.

The term "juristic company or partnership" (hereinafter called "company") means a limited company, a limited partnership or a registered ordinary partnership incorporated under Thai or foreign law as well as an association and a foundation engaged in business producing revenue. The term also includes any joint venture and any trading or profit-seeking activity carried on by a foreign government or its agency or by any other juristic body incorporated under a foreign law.

1. Taxable Person

Corporate income tax is levied on both Thai and foreign companies. A Thai company means a company incorporated under the law of Thailand. Thai company is subject to tax in Thailand on its worldwide net profit at the end of each accounting period (12 months). A foreign company means a company incorporated under foreign law. Generally, a foreign company is treated as carrying on business in Thailand if it has an office, a branch or any other place of business in Thailand or has an employee, agent, representative or go-between for carrying on business in Thailand. A foreign company carrying on business in Thailand is subject to CIT only for net profit arising from or in consequence of business carried on in Thailand, at the end of each accounting period. However, a foreign company engaged in international transport is subject to tax on its gross receipts. When a foreign company disposes its profit out of Thailand, such profit will be subject to tax on the sum disposed. Profit also means any sum set aside out of profits as well as any sum which may be regarded as profit.

A foreign company, not carrying on business in Thailand but deriving certain types of income from Thailand, such as service fees, interests, dividends, rents, professional fees, is subject to corporate income tax on the gross amount received. It is collected in the form of withholding tax by which the payer of income shall deduct the tax from the income at the rate shown in 3 (Tax Rates).

2. Tax Calculation

In the calculation of CIT of a company carrying on business in Thailand, it is calculated from the company's net profit on the accrual basis. A company shall take into account all revenue arising from or in consequence of the business carried on in an accounting period and deducting therefrom all expenses in accordance with the condition prescribed by the Revenue Code. As for dividend income, one-half of the dividends received by Thai companies from any other Thai companies may be excluded from the taxable income. However, the full amount may be excluded from taxable income if the recipient is a company listed in the Stock Exchange of Thailand or the recipient owns at least 25% of the distributing company's capital interest, provided that the distributing company does not own a direct or indirect capital interest in the recipient company. The exclusion of dividends is applied only if the shares are acquired not less than 3 months before receiving the dividends and are not disposed of within 3 months after receiving the dividends

In calculating CIT, deductible expenses are as follows.

1. Ordinary and necessary expenses. However, the deductible amount of the following expenses is allowed at a special rate:
   - 200% deduction of Research and Development expense,
   - 150% deduction of job training expense,
   - 200% deduction of expenditure on the provision of equipment for the disabled;
2. Interest, except interest on capital reserves or funds of the company;
3. Taxes, except for Corporate Income Tax and Value Added Tax paid to the Thai government;
4. Net losses carried forward from the last five accounting periods;
5. Bad debts;
6. Wear and tear;
7. Donations of up to 2% of net profits;
8. Provident fund contributions;
9. Entertainment expenses up to 0.3% of gross receipt but not exceeding 10 million Baht;
10. Depreciation : Provided that in no case shall the deduction exceed the following percentage of cost as shown below. However, if a company adopts an accounting method, which the depreciation rates vary from year to year, the company is allowed to do so provided that the number of years over which an asset depreciated shall not be less than 100 divided by the percentage prescribed below.

Types of Assets	Depreciation
1. Building	
1.1 Durable building	5 %
- durable building acquired within 5 September 2001 - 4 September 2002	initial allowance of 20% on the date of acquisition and the residual shall be depreciated at the rate in 1.1
- plant of SMEs*	initial allowance of 25% on the date of acquisition and the residual shall be depreciated at the rate in 1.1
1.2 temporary building	100 %
2. Cost of acquisition of depleted natural resources	5 %
3. Cost of acquisition of lease rights	
3.1 no written lease agreement	10 %
3.2 written lease agreement containing no renewal clause or containing renewal clause but with a definite duration of renewable periods	100 % divided by the original and renewable lease periods
4. Cost of acquisition of the right in a process, formula, goodwill, trademark, business license, patent, copyright or any other rights:	
4.1 unlimited period of use	10 %
4.2 limited period of use	100 % divided by number of years used
5. Other depreciable assets not mentioned above excluding land and stock-in-trade	20 %
5.1 machinery used in R&D	initial allowance of 40 % on the date of acquisition and the residual can be depreciated at the rate in 5
5.2 machinery used in SMEs*	initial allowance of 40 % on the date of acquisition and the residual can be depreciated at the rate in 5
5.3 cash registering machine	100 % or initial allowance of 40 % on the date of acquisition and the residual can be depreciated at the rate in 5
5.4 passenger car or bus with no more than 10 passengers capacity	depreciated at the rate in 5 but the depreciable value is limited to one million Baht
6. Computer and accessories	

6.1 SMEs*	initial allowance of 40 % on the date of acquisition and the residual can be depreciated over 3 years
6.2 other business	depreciated over 3 years

* SMEs refer to any Thai companies with fixed assets less than 200 million Baht and number of employee not exceeding 200 people.

3. Tax Rates

The corporate income tax rate in Thailand is 30% on net profit. However, the rates vary depending on types of taxpayers.

Taxpayer	Tax Base	Rate
1. Small company[1]	- Net profit not exceeding 1 million Baht - Net profit over 1 million Baht but not exceeding 3 million Baht - Net profit exceeding 3 million Baht	15%[2] 25% 30%
2. Companies listed in Stock Exchange of Thailand (SET)	- Net profit for first 300 million Baht - Net profit for the amount exceeding 300 million Baht	25%[3] 30%
3. Companies newly listed in Stock Exchange of Thailand (SET)	Net Profit	25%[4]
4. Company newly listed in Market for Alternative Investment (MAI)	- Net Profit for first 5 accounting periods after listing - Net Profit after first 5 accounting periods	20 %[4] 30 %
5. Bank deriving profits from International Banking Facilities (IBF)	Net Profit	10 %
6. Foreign company engaging in international transportation	Gross receipts	3%
7. Foreign company not carrying on business in Thailand receiving dividends from Thailand	Gross receipts	10%
8. Foreign company not carrying on business in Thailand receiving other types of income apart from dividend from Thailand	Gross receipts	15%
9. Foreign company disposing profit out of Thailand	Amount disposed	10%
10. Profitable association and foundation	Gross receipts	2% or 10%

11. Regional Operating Headquaters (ROH)	Net Profit	10%

1 Small company refers to companies with paid-up capital less than 5 million Baht at the end of each accounting period.

2 The 15% rate applies for accounting periods beginning on or after 1 January 2004.

3 The reduced rate applies for currently listed companies for 5 accounting periods beginning on or after 6 September 2001.

4 The reduced rate applies for newly listed companies (registered within 6 September 2001- 5 September 2005) for 5 accounting periods beginning on or after 6 September 2001.

4. Withholding Tax

Certain types of income paid to companies are subject to withholding tax at source. The withholding tax rates depend on the types of income and the tax status of the recipient. The payer of income is required to file the return (Form CIT 53) and submit the amount of tax withheld to the District Revenue Offices within seven days of the following month in which the payment is made. The tax withheld will be credited against final tax liability of the taxpayer. The following are the withholding tax rates on some important types of income.

Types of income	Withholding tax rate
1. Dividends	10 %
2. Interest	10 % if paid to associations or foundations 1 % in other case
3. Royalties	10 % if paid to associations or foundations 3 % in other case
4. Advertising Fees	2 %
5. Service and professional fees	3 % if paid to Thai company or foreign company having permanent branch in Thailand 5% if paid to foreign company not having permanent branch in Thailand
6. Prizes	5 %

Government agencies are required to withhold tax at the rate of 1% on all types of income paid to companies.

5. Tax Return and Payment

Thai and foreign companies carrying on business in Thailand are required to file their tax returns (Form CIT 50) within 150 days from the closing date of their accounting periods. Tax payment must be submitted together with the tax returns. Any company disposing funds representing profits out of Thailand is also required to pay tax on the sum so disposed within seven days from the disposal date (Form CIT 54).

In addition to the annual tax payment, any company subject to CIT on net profit is also required to make tax prepayment (Form CIT 51). A company is obliged to estimate its annual net profit as well as its tax liability and pay half of the estimated tax amount within two months after the end of the first six months of its accounting period. The prepaid tax is creditable against its annual tax liability.

As regards to income paid to foreign company not carrying on business in Thailand, the foreign company is subject to tax at a flat rate in which the payer shall withhold tax at source at the time of payment. The payer must file the return (Form CIT 54) and make the payment to the Area Revenue Branch Office within seven days of the following month in which the payment is made

VALUE ADDED TAX

Value Added Tax (VAT) has been implemented in Thailand since 1992 replacing Business Tax (BT). VAT is an indirect tax imposed on the value added of each stage of production and distribution.

1. Taxable Person

Any person or entity who regularly supplies goods or provides services in Thailand and has an annual turnover exceeding 1.2 million Baht is subject to VAT in Thailand. Service is deemed to be provided in Thailand if the service is performed in Thailand regardless where it is utilized or if it is performed elsewhere and utilized in Thailand.

An importer is also subject to VAT in Thailand no matter whether one is a registered person or not. VAT will be collected by the Customs Department at the time goods are imported. Certain businesses are excluded from VAT and will instead be subjected to Specific Business Tax (SBT).

Under VAT, taxable goods mean all types of property, tangible or intangible, whether they are available for sales, for own use, or for any other purposes. It also includes any types of articles imported into Thailand. Services refer to any activities conducted for the benefits of a person or an entity, which are not the supply in terms of goods.

Area Revenue Branch Offices if it is situated elsewhere. Should taxpayer have several branches, registration application must be submitted to the Revenue Office where the headquarter is situated.

2. Exemptions

Certain activities are exempted from VAT. Those activities are :

2.1 Small entrepreneur whose annual turnover is less than 1.2 Million Baht;

2.2 Sales and import of unprocessed agricultural products and related goods such as fertilizers, animal feeds, pesticides, etc.;

2.3 Sales and import of newspapers, magazines, and textbooks;

2.4 Certain basic services such as;

- transportation - domestic transportation and international transportation by way of land,

- Healthcare services provided by government and private hospitals as well as clinics,v

- Educational services provided by government and private schools and other recognized educational institutions,

- Professional services - Medical and auditing services, lawyer services in court and other similar professional services that have laws regulating such professions,

- Renting of immovable properties.

2.5 Cultural services such as amateur sports, services of libraries, musuems, zoos;

2.6 Services in the nature of employment of labour, research and technical services and services of public entertainers;

2.7 Goods exempted from import duties under the Industrial Estate law imported into an Export Processing Zones (EPZs) and under Chapter 4 of the Customs Tafiff Act;

2.8 Imported goods that are kept under the supervision of the Customs Department which will be re-exported and be entitled to a refund for import duties; and

2.9 Other services such as religious and charitable services, services of government agencies and local authorities.

3. Tax Base

3.1 General Goods and Services

Tax base of VAT is the total value received or receivable from the supply of goods or services. Value means money, property, consideration, service fees, or any other benefits which is ascertainable in terms of money. Tax base will also include any Excise tax arises in connection with such supply. However, tax base is exclusive of the value added tax itself and does not include any discounts or allowances, but only if discounts or allowances are clearly shown in the tax invoices.

3.2 Imported Goods

Tax base = C.I.F. price + Import duty + Excise Tax (if any) + other taxes and fees (if any)

3.3 Exported Goods

Tax base = F.O.B. price + Excise Tax (if any) + other taxes and fees (if any)

4. Tax Rates

4.1 General Rate

Currently, the rate is 7 percent.

4.2 Zero percent Rate

Certain activities are liable to VAT at the rate of zero percent. Those activities include :

- export of goods;
- services rendered in Thailand and utilized outside Thailand;
- aircraft or sea-vessels engaging in international transportation;
- supply of goods and services to government agencies or state-owned enterprises under foreign-aid program;
- supply of goods and services to the United Nations and its specialized agencies as well as embassies, consulate-general and consulates;
- supply of goods and services between bonded warehouses or between enterprises located in EPZs.

5. Time of Supply

The time of supply of goods or services is important because it determines when a registered person should account for VAT. The time of supply will be determined as follows:

5.1 Goods

5.1.1 General goods, the earliest of :

- the time of delivery; or
- when ownership of goods is transferred; or
- a payment is made; or
- a tax invoice is issued.

5.1.2 Hire-purchase or installment sale, the earliest of :

- the time each payment is due; or
- a payment is made; or
- a tax invoice is issued.

5.1.3 Supply of goods on consignment, the earliest of :

- the time the consignee makes delivery or transfers
- ownership of the goods to buyer; or
- a payment is made; or
- a tax invoice is issued.

5.1.4 Imports, the earliest of :

- the time import duty is paid; or

- a guarantee is put up; or
- a guarantor is arranged for; or
- a bill of lading is issued.

5.1.5 Exports, the earliest of :

- the time export duty is paid; or
- a guarantee is put up; or
- a guarantor is arragned for; or
- a bill of lading is issued; or
- goods are sent from Thailand to an Export Processing Zone; or
- goods are exported from a bonded warehouse.

5.2 Services

5.2.1 In general, the earliest of :

- the time a payment is made; or
- tax invoice is issued; or
- service is utilized.

5.2.2 Service contract where payment is made according to the service performed, the earliest of :

- the time a payment is made; or
- tax invoice is issued; or
- service is utilized.

5.2.3 Imports

- the time the payment is made.

6. Tax Invoice

VAT registered person or entity is required to issue tax invoices every time the transactions are made showing details of nature and value of goods sold or services provided and also amount of VAT due. Tax invoice is used as evidence for claiming input tax credit. Tax invoice must contain at least the following elements;

- the word "Tax invoice" in a prominent place,
- Name, address and tax identification number of the issuer,
- Name and address of the purchaser or customers,
- Serial numbers of tax invoice and tax invoice books (if applicable),
- Description, value and quantity of goods or services;

- Amount of VAT chargeable, and
- Date of issuance.

7. Tax Calculation

VAT liability = Output Tax - Input Tax

"Output Tax" is a tax collected or collectible by VAT registered person from his customers when goods or services are supplied.

"Input Tax" is a tax charged by another registered person on any purchase of goods or provision of services. The term also includes any tax charged on imported goods.

8. Refund

In each month, if input tax exceeds output tax, taxpayer can claim for the refund, either in form of cash or tax credit to be used in the following months. Therefore, in case of zero-rated, taxpayer will always be entitled to VAT refund. As for unused input tax, it may be creditable against output tax within the next 6 months. However, the refund can only be claimed within 3 years from the last day of filing date.

Certain input taxes, such as tax in relation to entertaining expenses, are not creditable under VAT. However, those non-creditable input taxes can instead be used as deductible expenses under Corporate Income Tax (CIT).

9. VAT Registration

Any person or entity who is liable to VAT in Thailand must register to be VAT registered person or entity (Form VAT 01) before the operation of business or within 30 days after its income reaches the threshold. The registration application must be submitted to Area Revenue Offices if the business is situated in Bangkok or to the District Revenue Offices if it is situated elsewhere. Should taxpayer have several branches, registration application must be submitted to the Revenue Office where the headquarter is situated.

10. Tax Return and Payment

VAT taxable period is a calendar month. VAT return therefore must be filed on a monthly basis. VAT return (Form VAT 30) together with tax payment, if any, must be submitted to the Area Revenue Branch Office within 15 days of the following month. If taxpayer has more than one place of business, each place of business must file the return and make a payment seperately unless there is an approval from the Director-General of the Revenue Department. Services utilized in Thailand supplied by service providers in other countries are also subject to VAT in Thailand. In such a case, service recipient in Thailand is obliged to file VAT return (Form VAT 36) and pay tax, if any, on behalf of the service providers.

In the case where supply of goods or services is also subject to Excise tax, VAT return and tax payment, if any, must be submitted to the Excise Department together with Excise tax return and tax payment within 15 days of the following month. In case of imported goods, VAT return and tax payment must be submitted to the Customs Department at the point of import.