



Challenges for Thailand in International Taxation

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OUTLINE

- Background of Thailand relating to BEPS

- BEPS issues relevant to Thailand

- Challenges in addressing BEPS

- Future development

Background of Thailand relating to BEPS

BEPS risk

- Data analysis

Tax structure

- CIT rate
- Tax incentive

Globalization

- Corporation competitiveness
- Harmful tax preferential regimes



Trade (% of GDP)

| Jurisdictions | 2010 | 2011 | 2012 | 2013 |
|---------------|------|------|------|------|
| China | 55 | 55 | 52 | 50 |
| Hong Kong SAR | 433 | 447 | 450 | 458 |
| India | 48 | 54 | 55 | 53 |
| Indonesia | 47 | 51 | 50 | 49 |
| Japan | 29 | 31 | 31 | 35 |
| Korea | 96 | 110 | 110 | 103 |
| Malaysia | 170 | 167 | 159 | 154 |
| Philippines | 71 | 68 | 65 | 60 |
| Singapore | 372 | 374 | 368 | 358 |
| Thailand | 135 | 149 | 149 | 144 |
| Vietnam | 152 | 163 | 157 | 164 |

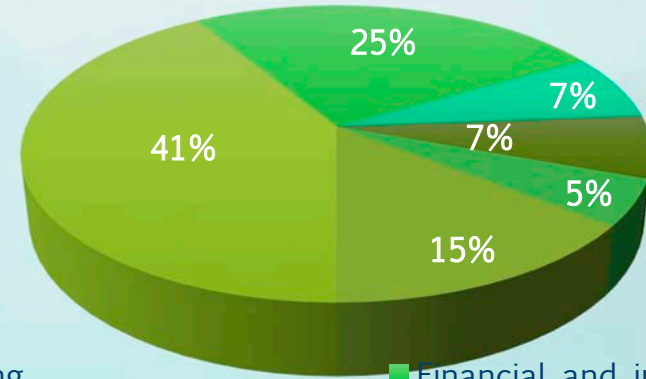
Source: World Bank

FDI in Thailand

| No. | Inward FDI | Outward FDI |
|-----|-------------------|---------------|
| 1 | Japan | Cayman Island |
| 2 | Singapore | Singapore |
| 3 | The Netherlands | Mauritius |
| 4 | The United States | Hong Kong |
| 5 | Hong Kong | EU |

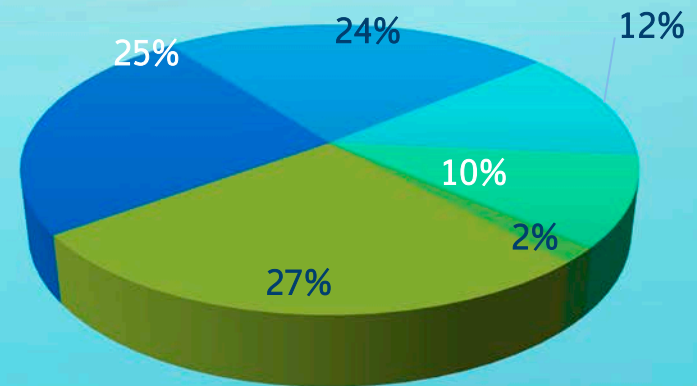
Source: Inward and Outward FDI Stocks 2014, Bank of Thailand

Inward FDI



- Manufacturing
- Financial and insurance activities
- wholesale and retail trade
- Real estates activities
- Information and communication
- others

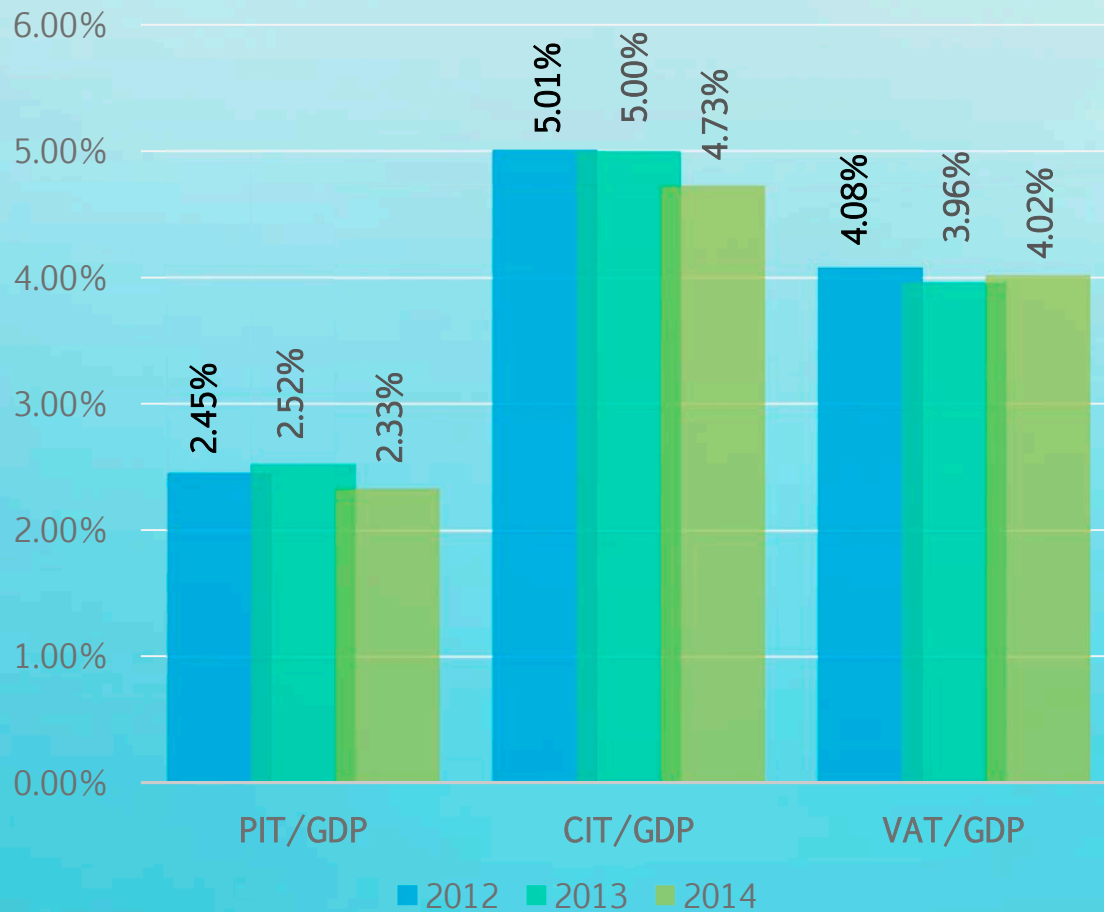
Outward FDI



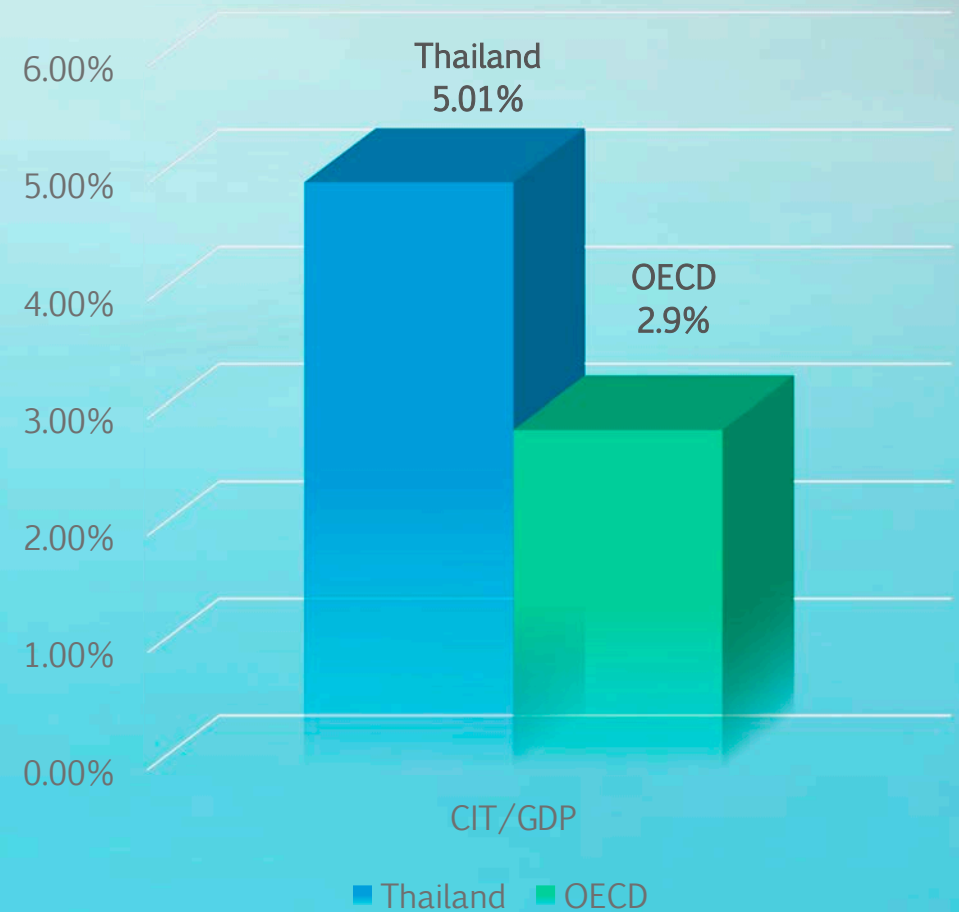
- Manufacturing
- Mining and quarrying
- Financial and insurance activities
- Wholesale and retail trade
- Real estate activities
- others

Tax Revenue as Percentage of GDP

Tax Revenue to GDP

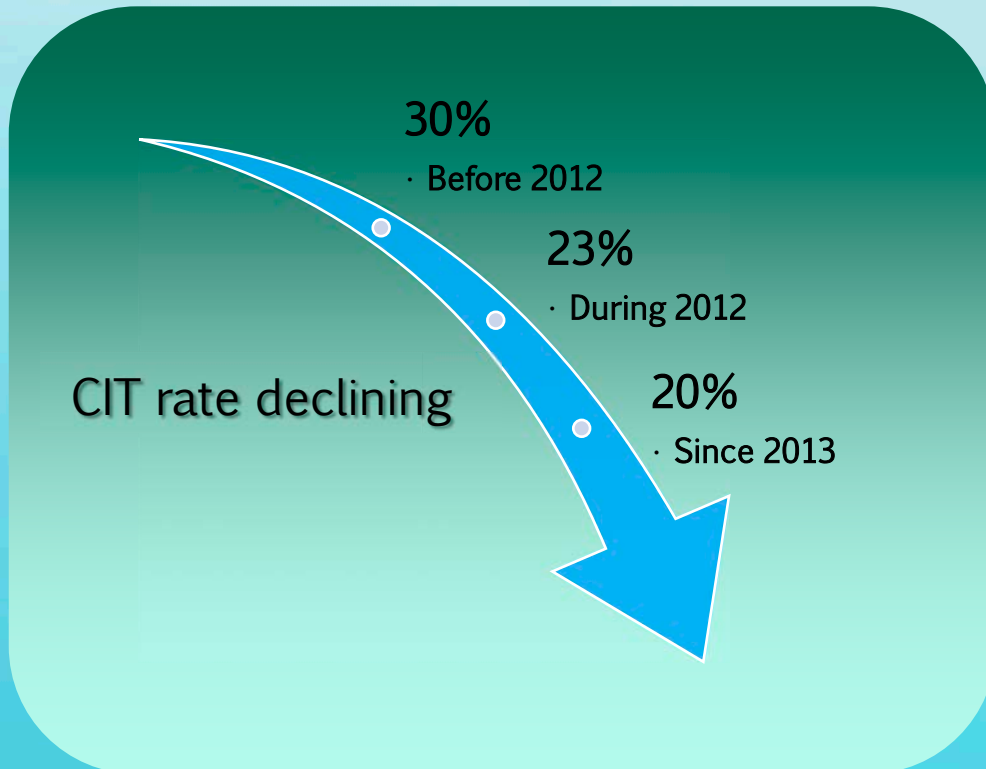


CIT TO GDP (2012)



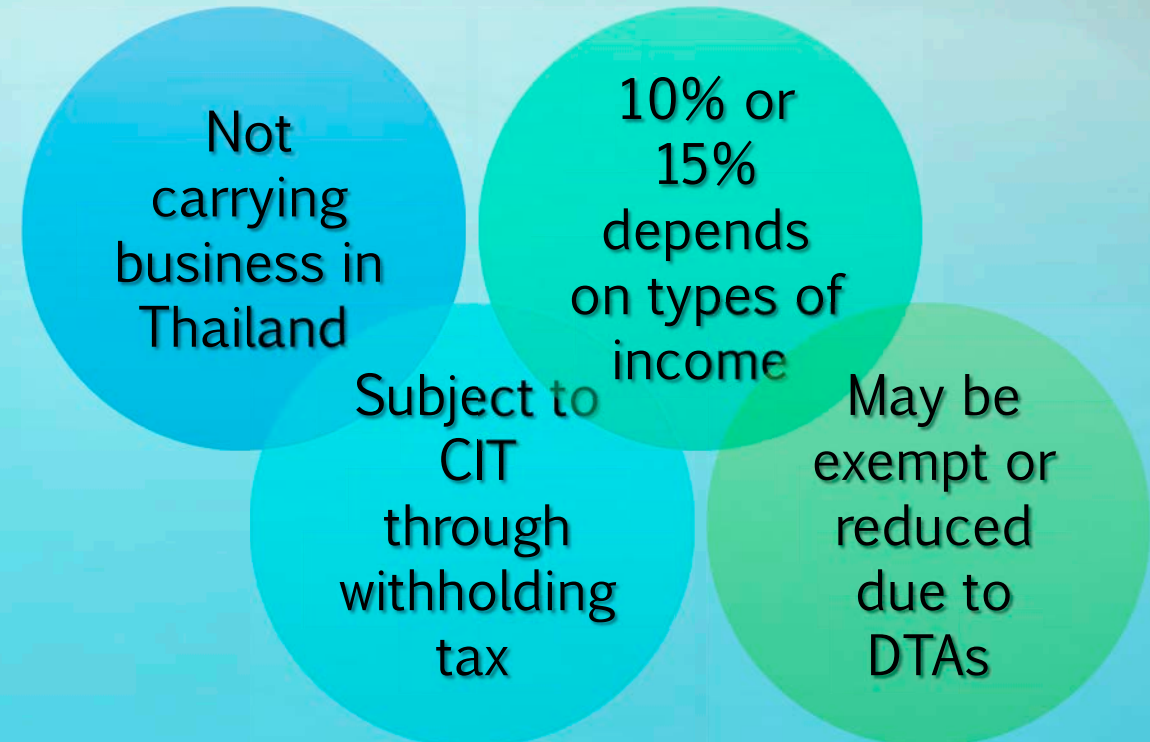
Corporate Income Tax Structure

Domestic corporations *



* Including foreign co. carrying on business in Thailand

Foreign Corporations



Tax Incentives – Tax Holidays

Pros


- Promote Investment in target industries
- Qualified business gets benefits both tax and non-tax incentives
- Main tax incentives given from BOI to business project are tax holidays and import duty exemption

Cons

- Some local businesses artificially shift profit from non-BOI activities to BOI activities to enjoy the tax holidays
- Foreign company established in Thailand could also use transfer pricing to artificially shift profits into its BOI project



The Availability of Harmful Preferential Regimes



With preferential tax regimes, there is more base erosion in, and profit shifting from high tax countries

Not only matter in traditional tax heaven countries but also in many advanced countries



Base Erosion and Profit
Shifting Issues that are Most
Relevant to Thailand

Common Practices used for BEPS

Transfer Pricing

- Especially business restructuring

Intra-group expenses

- Debt-financing, royalty payment, consultation fees

Application of treaty concept

- Permanent establishment and growing of digital economy

Treaty abuse

- Improper use of DTA through treaty shopping

Digital Economy

- VAT collection on final consumers

Hybrid mismatch arrangements

- Increasing use of hybrid mismatch financial instrument



Challenges for Thailand in Creating Mechanism to Deal with BEPS

Challenges in Addressing BEPS

Proper policy design

- Designing tax policy that pro business and protecting tax base at the same time

Legislation

- No legislation to counter many common BEPS practices
- Need strong political support

Access of Information

- Difficult to access information outside jurisdiction
- Effective exchange of information

Challenges in Addressing BEPS

Capacity building

- Most essential for Thailand to counter BEPS

Resource constraint

- limited resource and there are other pressing issues

Administration

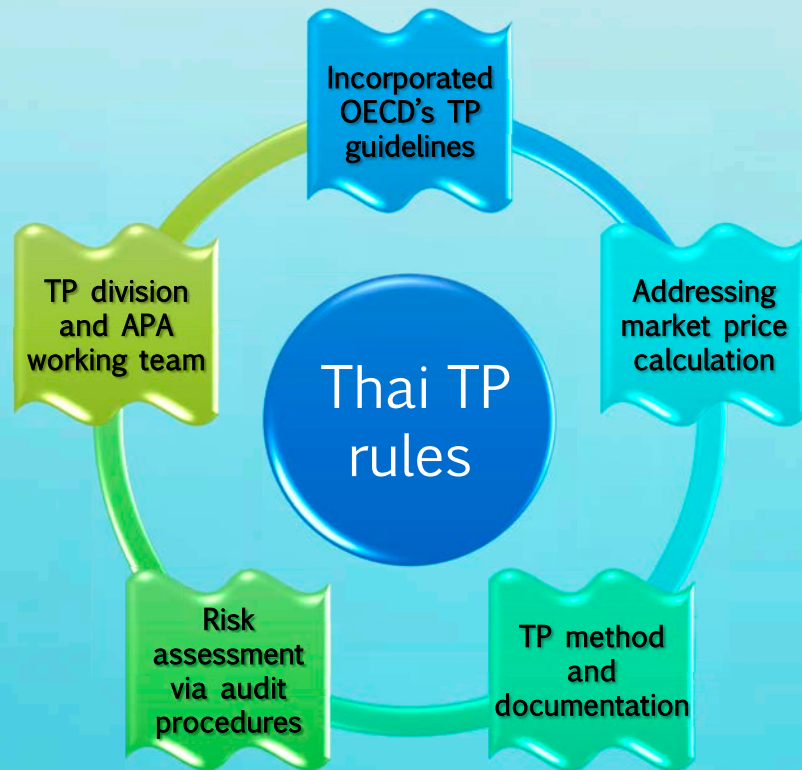
- Specialize unit on international taxation within the organization is needed



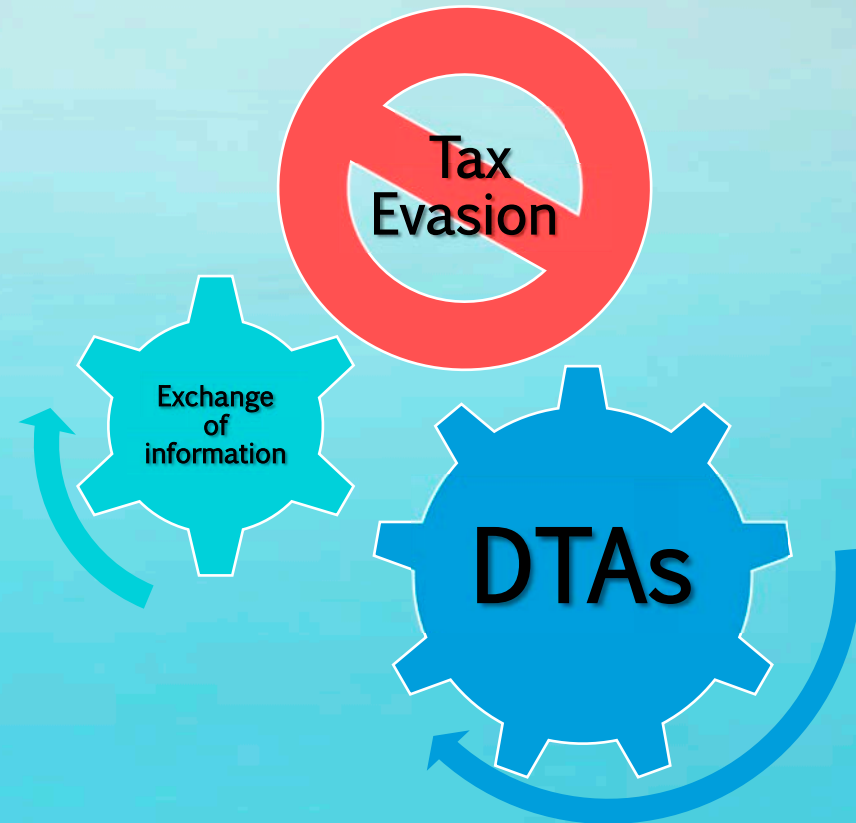
Future Development to Tackle BEPS

Actions to Tackle BEPS

Legislation on TP



Exchange of Information



Future Development

TP Legislation and Capacity Building

Greater scope of TP implication , wider than market price calculation in tax code

Clearer definition of market prices to reduce complication and time-saving

Expand capacity by implementing a project to expand TP audit skills to other supervision teams outside the TP division

Exchange of Information

Exchange of Information under DTA upon request

Implementing EOI Road moving towards Automatic Exchange of Information

Upgrading EOI unit & capability, enhancing EOI database

Conclusion

Tax planning schemes are less sophisticated compared to advanced economies

Proper policy design and capacity building are the challenges

Action in the near future focus on pressing needs first

Thank You