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Measures Supporting the Establishment of Regional Operating Headquarters

In their meeting on 11 December 2001, the Cabinet agreed on a policy of granting tax privileges to foreign investors who establish Regional Operating Headquarters (ROH) in Thailand. This policy is contained in the Royal Decree proposed by the Revenue Department, Ministry of Finance. The details are as follows:

1. A decrease in the income tax rate for juristic entities from 30% to 10% of their net profit for their Regional Operating Headquarters, which are defined as corporate or juristic partnerships established under Thai law and have the responsibility of providing management, technical and other supporting services, such as offering technical, product research and development, training, and supporting services for related companies or juristic partnerships and/or their domestic or overseas subsidiaries, specific to only those receiving the said services.

2. The specific decreases of the income tax rate and tax exemptions for juristic entities earning a certain income as specified below:

   2.1 A decrease of the income tax rate to 10% of the net profit for Regional Operating Headquarters earning income derived from rights fees from their research and development, taking into account only the work which is done domestically for related companies or for their subsidiaries, and rights fees received from other producers or service providers, which are the Regional Operating Headquarters' related companies or their subsidiaries.
   2.2 A decrease in the income tax rate for juristic entities to 10% of net profit derived from interest that Regional Operating Headquarters receives from related companies and/or their subsidiaries, and specific to loans that the Regional Operating Headquarters have borrowed for the purpose of lending to their subsidiaries or related companies.
   2.3 An income tax exemption for juristic entities for income derived as dividends that the Regional Operating Headquarters receives from both related domestic and overseas companies.
   2.4 An income tax exemption for juristic entities for dividends paid from the Regional Operating Headquarters' profit to companies that are established under foreign laws and do not operate in Thailand.

3. Regional Operating Headquarters are allowed to depreciate the value of their buildings and offices (purchased or acquired for their own business purposes) up to 25 % of the cost on the day that they acquire the buildings and offices, and gradually depreciate the rest over a period of 20 years.

In order for Regional Operating Headquarters to be eligible for the tax privileges set forth in sections 1 and 2 (above), they must meet the following criteria:

(1) They must have paid registered capital of at least 10 million Baht on the last day of accounting cycle.

(2) They must provide services to related companies or partnerships and/or their overseas subsidiaries located in three or more countries.

(3) At least 50% of the Regional Operating Headquarters' revenues must come from services and sales to related companies, juristic partnerships, or their overseas subsidiaries. An exception is provided in a case in which a Regional Operating Headquarter is still in the first three years of establishment, under the condition that at least one third of its revenue comes from sales to related companies or juristic partnerships or their overseas subsidiaries.

In addition to the tax incentive measures given to encourage the establishment of Regional Operating Headquarters, foreign workers of Regional Operating Headquarters will also benefit from these following tax privileges:

1. A personal income tax exemption for foreign employees working in Regional Operating Headquarters, for the income received from overseas as a result of their working abroad and their said income is not included directly or indirectly to the expenditure of their offices in Thailand, and related companies or juristic partnerships doing business in Thailand.
2. Foreign employees working in Regional Operating Headquarters, receiving wages as a result of employment, and allowing Regional Operating Headquarters to deduct 15 % tax from their wages are allowed to leave their wages out of the tax statement, and thus do not have to pay tax for their wages with the requirement that they do not include other income, such as interest and dividends, which are allowed to be left out of the statement, into the tax statement when it comes to tax calculation at the end of the year, and they must not ask for a return of paid tax or a tax credit of the paid tax whether in full or in part of the amount.
3. Foreign workers eligible for these privileges are defined as aliens who work for Regional Operating Headquarters in Thailand for a period not exceeding 2 years from the first day on the job until termination of the job, regardless of travels in and out of the country during that time. However, this will not include cases in which foreign employees are re-hired by the same Regional

Operating Headquarter after 365 days from the termination date of the last job.

In addition to the supportive tax measures from the Revenue Department, the Board of Investment will also harmonize its investment promotion rules, and terms not associated with taxation in order to encourage increased capital inflows and increased Regional Operating Headquarter establishment. An increase of Regional Operating Headquarter establishments in Thailand is anticipated as a result of both tax and non-tax incentives, which will bring increased foreign capital flows into the country.

These measures will not cause a decline in the government's revenue as a result of a decrease in tax collections; on the contrary, they will help to increase long-term tax collections as more Regional Operating Headquarters are established in the country.