



Newsletter No. 02 (EN)

The Thai Value Added Tax (VAT) System

- performed work, that is used in Thailand 7 % Thai VAT
- performed work in Germany, that is used in Thailand 7 % Thai VAT
- performed work in Thailand, that is used in Germany 0 % Thai VAT

A Thai company has

- performed a service, that is used in Germany only German VAT
- performed a service, that is used in Thailand 7 % Thai VAT
- performed a service in Germany, that is used in Thailand 7 % Thai VAT
- performed a service in Thailand, that is used in Germany 0 % Thai VAT

- performed work, that is used in Germany only German VAT
- performed work, that is used in Thailand 7 % Thai VAT
- performed work in Germany, that is used in Thailand 7 % Thai VAT
- performed work in Thailand, that is used in Germany 0 % Thai VAT

Examples:

A) Service rendered abroad, and used in Thailand:

1. In case a foreign registered company has rendered service abroad and the service is **used** in Thailand, it shall be regarded that the service in question is rendering of service in Thailand:

The Co. has the duty to add 7% VAT

2. The rendering of service abroad and service used in Thailand refers to any action that could be used to seek benefit that is not a sale of goods.

Transfer of ownership of intangible goods (i.e. transfer of ownership of rights in patent, a transfer of ownership of trademark, copyright, royalty) from abroad into Thailand shall not be regarded as a rendering of service abroad and that such service is used in Thailand:

0% VAT has to be added on the invoiced amount.

3. But: If the company registered abroad has permitted any Thai Co. or any person in Thailand to use rights, whereby this company is still the owner of the aforesaid rights, it shall not be regarded as a sale of intangible goods. It shall be regarded as a rendering of service abroad used in Thailand:

The Thai Co. has the duty to add 7 % VAT

4. A company registered abroad has rendered service abroad and the service has been used abroad, the mentioned service shall be regarded as if the service has been rendered outside Thailand:

0 % VAT has to be added

B) Service rendered in Thailand, and used abroad:

1. In case service is rendered in Thailand and used abroad:

0 % VAT has to be added. (Sec. 80/1 (2)), but:

2. Transfer of ownership of intangible goods (i.e. transfer of ownership of rights in patent, a transfer of ownership of trademark, copyright, royalty)

from Thailand to abroad shall **not** be regarded as a rendering of service in Thailand and that such service is used abroad:

The Thai Co. has the duty to add 7% VAT

3. If a Thai company has permitted any company abroad to use rights (patents, etc.), whereby the Thai company is still the owner of the aforesaid rights, it shall not be regarded as a sale of intangible goods. It shall be regarded as a rendering of service in Thailand used abroad and VAT has to be added:

0 % VAT has to be added. (Sec. 80/1 (2))

⇒ **VAT exempted business** (Revenue Code, Div.5, Sec. 81)

financial support from foreign headquarter to the Thai subsidiary.

sale of:

- agricultural products, animals, fertilizers, fish meals,
- animal feeds, drugs and chemical products of plants and animals,
- newspapers, magazines, textbooks,
- goods or provision of services by a ministry department,
- goods or provision of services exclusively for the benefit of a religion, or
- a public charity in Thailand, of which the profits are not applied for other purposes, goods or provision of services designated by a royal decree.

Provision of:

- educational services, an artistic and cultural service in the branch,
- services by practicing arts of healing, auditing, advocacy in courts,

- services in healing and nursing by a clinic under law governing clinics,
- research or technical services in the branch, library, museum, or zoological garden services,
- services under an agreement on hire of service,
- services of organizing amateur sports contests,
- services of public entertainers, only if being the service in the branch,
- services of domestic and international transport, not being transport by means of aircraft or sea-going vessels,
- services of letting out an immovable property on hire
- services by a local government authority, not including its commercial services or services for seeking revenues or benefits, whether or not being a public utility.

import of the following goods:

- agricultural products, animals, fertilizers, fish meals,
- animal feeds, drugs and chemical products of plants and animals,
- newspapers, magazines, textbooks,
- goods from a foreign country that are brought into an export processing zone, only if the goods are exempt from import duty,
- goods listed in the part on the goods exempted from duty under the law governing customs tariff,
- goods imported and kept under the custody of the Customs Department,
- export of goods or provision of a service by a registrant liable to value added tax under Sec. 82/16, RC,
- a small company with an annual turnover less than 600.000 THB.

⇒ **Zero percent VAT (0 %VAT)** (Revenue Code, Div.4, Sec.80/1):

- provision of a service performed in Thailand and used in a foreign country, according to the categories, rules, procedures and condition, prescribed by the Director-General (provision of service performed in Thailand for manufacturing goods in an export processing zone for export and service performed in an export processing zone for manufacturing goods for export)
- export of goods other than that exempt from value added tax
- provision of an international transport service by aircraft or sea-going vessels by a supplier who is a juristic person.

C) Calculation of VAT

The main problem however, is how to calculate the amount of VAT that a Thai company has to pay to the Revenue Department (“RD”). The formulas will be explained in the following.

1. Principles

To understand the below formulas there is a need to clarify the used terms.

“Output Tax” is the received VAT amount (received from customers).

“Input Tax” is the paid VAT amount (paid to supplier).

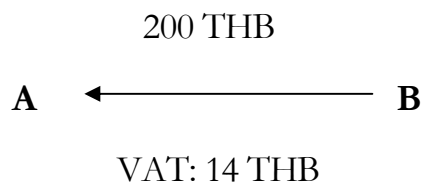
General calculation of the amount that has to be paid to the Revenue Department on a monthly basis is as follows:

$$\underline{\text{Output Tax} - \text{Input Tax} = \text{tax debt (to pay monthly)}}$$

In case the tax debt is negative, the tax debtor can claim this negative amount from the Revenue Department or may use it in the future as a tax credit

Example:

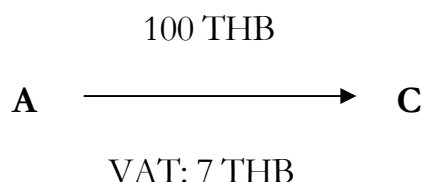
Thai company **(A)** has received 214 THB (200 THB for service + 7% VAT (= 14 THB VAT) = in total 214 THB) from company **(B)**:



Thai company **(A)** has received

VAT from company **(B)**: 14 THB = **Output tax (VAT)**

The same Thai company **(A)** has paid 107 THB (100 THB for service and 7 THB VAT) to company **(C)**:



Thai company has paid VAT

to company **(C)**: 7 THB = **Input tax (VAT)**

Thai company **(A)** has to pay

to the Revenue Department: 7 THB = **tax debt (VAT)**

⇒ Calculation as stated above:

14 THB Output tax - 7 THB Input tax = 7 THB VAT/ tax debt

2. Exception

It is important to distinguish between normal VAT (7%), 0 % VAT business and VAT exempted business!

“0 % VAT”-business can be used as Input tax. It is not possible to offset VAT exempted business:

If over **10 %** of the company’s revenue is VAT **exempted**, then, the company’s claimable Input tax has to be reduced proportionally.

Claimable Input tax:

$$\left\{ 1 - \left[\frac{\text{Exempted Revenue per month}}{\text{total Revenue per month}} \right] \right\} \times \text{total Input Tax} = \text{claimable Input VAT}$$

Example:

		VAT (7%) -Amount:	To be used as
Total Revenue	100 THB	7	Output Tax
Thereof exempted revenue	40 THB	exempted	Output Tax

Total purchase	80 THB	5.6	Input Tax
----------------	--------	-----	-----------

$$\left\{ 1 - \left(\frac{40 \text{ THB}}{100 \text{ THB}} \right) \right\} \times 5.6 \text{ THB} =$$

$$1 - (0.4) = 0.6 \quad \times 5.6 \text{ THB} = \underline{\underline{3.36}} \text{ THB} = \underline{\underline{\text{claimable Input VAT}}}$$

Amount of VAT to the Revenue Department

Output VAT – claimable Input VAT:

$$7 \quad - \quad 3.36 \quad = \underline{\underline{3.64}} \text{ THB has to be paid to the Revenue Department (and not: } 7 - 5.6 = 1.4 \text{ THB)}$$

Although Lorenz & Partners Co., Ltd. always pays greatest attention on updating the information provided in this newsletter we cannot take responsibility for the topicality, completeness or quality of the information provided. None of the information contained in this newsletter is meant to replace a personal consultation. Liability claims regarding damage caused by the use or disuse of any information provided, including any kind of information which is incomplete or incorrect, will therefore be rejected, if not generated deliberately or grossly negligent.

*We hope that the information provided in this newsletter was helpful for you.
If you have any further questions please do not hesitate to contact us.*

LORENZ & PARTNERS Co., Ltd.

27th Floor Bangkok City Tower
179 South Sathorn Road, Bangkok 10120, Thailand

Tel.: +66 (0) 2-287 1882

E-Mail: info@lorenz-partners.com