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Hong Kong Call Center

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In today's globalization, Thai entrepreneurs are looking across the border to find greener pasture to either retain or increase his competitive edge in view of declining tax barriers due to World Trade Organization (WTO), ASEAN Free Trade Zone covering ten countries in South East Asia or bilateral Free Trade Agreements that the Prime Minister is pushing with major trading partners including the United States, Japan, China and India.

Greener pasture is not limited to marketing and financial sources, taxation is a drag on all businesses especially when Thailand is a high tax country as compared to our neighbors. In this Far East region, two locations which offer attractive taxation and other incentives are Singapore and Hong Kong. The island state of Singapore has an income tax rate of 20% for both corporate and individuals compared to Thailand's 37%. Beginning 1 April 2003, corporate tax in Hong Kong is 17.5% with neither capital gain nor dividend tax.

On top of this, Singapore offers a 10% tax for ROH or Regional Operating Headquarters. Thailand tried to match the tax incentives by creating her own ROH package but I am not informed about its popularity. You cannot attract foreign company with only tax incentives, there are other considerations such as bureaucracy, infrastructure, transparency and financial backups.

Nowadays, people become more familiar with the word "Call Center" whereby a central location in Asian countries process information, data and furnish services to western countries as cheap as one quarter of the original cost. However, when I refer to call center in this article, I mean a Thai company can set up a process center in Singapore to handle certain work and pays 20% tax whereby service fees paid from Thailand are deductible against 30% Thai tax (if we include dividend tax, the effective rate is 37%). The Bank of Thailand has relaxed exchange control regulations for Thai company to set up offshore subsidiary to gain excess to foreign market for trade penetration.

Business executives are aware that Thailand has a Double Tax Agreement (DTA) with Singapore since January 1977, a copy of which is available on the website of the Revenue Department (www.rd.go.th). Therefore, Singapore has a competitive edge as compared to Hong Kong. Payment for offshore services are either exempt from VAT or if you use the services in Thailand, the VAT paid becomes your input tax credit so it is not a burden.

Hong Kong has been pushing hard to gain the status of a tax treaty country. The DTA that Thailand signed with China effective January 1987 has an exclusion in Article 3 and it does not apply to Hong Kong which is a special economic zone where taxation law of China does not apply. Therefore, Hong Kong is not considered a part of China when it comes to the avoidance of taxation under the DTA.

Nevertheless, Thailand has recently finished a DTA with Hong Kong. Negotiations were completed sometime ago and the draft is approved by the Thai Cabinet. Hong Kong authority is pushing for an early signing. Process is being done by the Thai Ministry of Foreign Affairs to execute the DTA and after exchange of diplomatic notes, it should be effective in January 2006. Then, China becomes one country with two tax avoidance system.

One important feature of the DTA with Hong Kong is that it exempts tax on capital gain of the share trading although the same profit is taxable under the Thai-Chinese DTA. Hong Kong wants to make sure it is on the same level as Singapore. Many investors trade through Singapore to be exempt from capital gain tax. When the Hong Kong DTA is effective, broker houses and investors can trade directly on the Stock Exchange of Thailand including other deliberative markets and be exempt from capital gain tax.

As a result, it might be time for Thai entrepreneurs to focus on Hong Kong, to set up service or call center to take advantage of low corporate income tax rate and other feature of Thai – Hong Kong DTA.

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