

SE Asian Regional Headquarters Companies



Introduction

If you are an international business, more than likely you are conducting operations in the SE Asia region through a network of distributors in the various countries in the region, and the establishment of a Regional Headquarters in the region not only makes business sense, it is often a must to properly manage the business in the region.

Whilst Hong Kong was the traditional place to establish a SE Asian Headquarters company, Singapore successfully attracted many Headquarters companies to their shores, Malaysia then attracted a fair share of them, followed by Thailand.

By and large, the choice of jurisdiction for the location of a SE Asian Headquarters company is dictated by a jurisdiction's environmental attributes that help to ensure success for the SE Asian Headquarters.

In an effort to attract internationals to Thailand, the Thai Government has, effective 1 June 2010, significantly re-vamped its tax incentives for Regional Headquarters companies established in Thailand, and has placed Thailand at the forefront of the offerings by Hong Kong, Singapore and Malaysia.

The RSM International office in Thailand has prepared this publication to provide an overview of the tax offerings in Hong Kong, Singapore, Malaysia and Thailand. But you should note that, as it's not possible for a publication of this nature to provide all the matters on which to base actions, it can only therefore be a guide.

If you require more comprehensive advice on a specific country, you are invited to contract the RSM International tax services professionals named in this guide.



Steven Herring
International Tax Services
RSM Thailand

Hong Kong

Hong Kong does not have any particular or specially enacted regime for regional headquarters companies, but as the Hong Kong profits tax regime subjects to tax only those profits arising from a trade, profession or a business that arises in or is derived from (i.e. sourced in) Hong Kong, the laws administering Hong Kong profits tax provide an automatic advantage for establishing a regional headquarters for the SE Asian region in Hong Kong.

Under the Hong Kong profits tax law, the source of income is determined by an analysis of the facts, and the general rule is to look to see what a Hong Kong taxpayer has done to earn the income and where a Hong Kong taxpayer has done it. That is, if what is done takes place in Hong Kong, the income arising from it will generally be subject to profits tax in Hong Kong, but if what is done takes place outside of Hong Kong, the income arising from that will generally not be subject to profits tax in Hong Kong.

Thus, the income of a regional headquarters taxpayer in Hong Kong (the bulk of which would be income from services provided to affiliated companies outside of Hong Kong) then, provided the services rendered to the affiliated companies are carried out outside of Hong Kong, the bulk of the income of the regional headquarters in Hong Kong should not be subject to profits tax in Hong Kong. This results in a Hong Kong regional headquarters company having to pay profits tax in Hong Kong only on the income arising from services that are rendered to affiliated companies in Hong Kong and carried out in Hong Kong.

And in relation to any dividend income derived by a regional headquarters in Hong Kong, the Hong Kong profits tax regime exempts the dividends from profits tax in Hong Kong.

*For further information and assistance in Hong Kong:
Dicky To, RSM Nelson Wheeler
T: +852 2583 1256
E: DickyTo@rsmnelsonwheeler.com*

Singapore

The Singapore Government's economic development policy is to create a headquarters eco system for the city-state. It reaches out to all types of multinational companies for a multinational's regional headquarters to be located in Singapore.

For well-established multinationals undertaking large levels of headquarters activities in the SE Asia region the Singapore Government's Regional Headquarters (RHQ) Award provides very attractive tax incentives.

The Government provides an RHQ company, which meets their minimum requirements (amongst others) of S\$500,000 capital in Singapore and incurs at least S\$5,000,000 in annual business spending:

- 15% tax on incremental qualifying income; and
- 3 years tax relief, with extension for an additional 2 more years.

Multinationals that commit to exceeding the minimum requirements for the RHQ Award can be granted an International Headquarters (IHQ) Award, with greater tax incentives, such as:

- 0/5/10% tax on qualifying income customized on the level of commitment and as negotiated with Singapore Economic Development Board); and
- 5 to 20 years tax relief period.

The qualifying income of an RHQ or IHQ is income from management, technical assistance and other supporting services, and qualifying interest and royalty income.

There is no Singapore tax on dividends received by an RHQ or an IHQ, and dividends paid out of by an RHQ or an IHQ are free of Singapore withholding tax.

*For further information and assistance in Singapore:
KOH Puay Hoon, RSM Chio Lim
T: +65 6594 7820
E: PHKoh@rsmchiolim.com.sg*

Malaysia

Malaysia offers an Operational Headquarters (OHQ) regime.

An OHQ is a company incorporated in Malaysia that provides qualifying services to its offices or related companies within or outside Malaysia, and approved by the Malaysian Industrial Development Authority.

For an OHQ company established in Malaysia with a minimum of RM 500,000 of capital and incurring minimum spending of RM 1,500,000 per year, the Malaysian Government grants the following taxation incentives:

- 0% corporate income tax for 10 years on income arising from services rendered by an OHQ to its related companies outside Malaysia;
- 0% corporate income tax for 10 years on interest income derived on loans extended to its related companies outside Malaysia;
- 0% corporate income tax for 10 years on royalties received from research and development work carried out in Malaysia for its related companies outside Malaysia;
- 0% corporate income tax for 10 years on income earned from related companies in Malaysia, provided the income does not exceed 20% of the total OHQ income from qualifying services; and
- 0% withholding tax can be claimed for dividends declared out of OHQ exempt income.

Non-Malaysia citizens working for an OHQ or for a Regional Office (RO) based in Malaysia are taxable on their income from their Malaysian employment, on a time apportionment basis, in accordance with the number of days spent in Malaysia.

*For further information and assistance in Malaysia:
Wong Yok Chin, RSM Tax Consultants
T: +603 2610 2888
E: Yok.Chin@rsmi.com*

Thailand

In August 2002, in an effort to persuade international companies away from Hong Kong, Singapore and Malaysia, the Thailand Government introduced the Regional Operating Headquarters (ROH) regime.

An ROH is a company established in Thailand with a minimum paid up capital of 10 million baht, providing services to affiliated companies and branches in the region.

But the tax incentives offered by the Government in 2002 weren't enough to convince the internationals to move their Regional Headquarters to Thailand, and effective 1 June 2010, the Government now offers an ROH in Thailand, the following tax incentives:

- 0% corporate income tax on qualifying services income rendered to and received from affiliated companies outside Thailand for 15 years;
- 0% corporate income tax on dividends received from affiliated companies and branches outside Thailand;
- 0% withholding tax on dividends paid out of the ROH to the foreign company shareholders;
- 10% corporate income tax on qualifying services income rendered to and received from affiliated companies inside Thailand for 15 years; and
- 15% personal income tax on foreign expatriates' income for 8 years.

Along with the above enhanced tax incentives, the Government of Thailand also announced that it would streamline the required amount of paperwork that the Government agencies in Thailand formerly required for the establishment and their approval of an ROH in Thailand.

*For further information and assistance in Thailand:
Steven Herring, RSM Advisory
T: +66 2670 9002
E: steven.herring@rsmthailand.com*

Comparison Table

A comparison summary of the important tax structuring considerations for a Regional Headquarters company in the SE Asian countries of Hong Kong, Singapore, Malaysia and Thailand is as follows:

| | Hong Kong | Singapore | Malaysia | Thailand |
|-----------------------------------------------------------|--------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|------------------------------|------------------------------------------------------------------------------------|
| Minimum investment amount | N/A | S\$ 0.5m (c. US\$ 350,000) | RM 0.5m (c. US\$ 150,000) | THB 30m ¹ (c. US\$ 900,000) |
| Minimum annual spending | N/A | S\$ 2m (c. US\$ 1.4m) | RM 1.5m (c. US\$ 450,000) | THB 15m ² (c. US\$ 450,000) |
| Corporate income tax on services income | 0% on income from outside the country 16.5% on income from inside the country | 15% on the income of an RHO ³ 0%, 5% or 10% on the income of an IHQ ⁴ | 0% | 0% on income from outside the country 10% on income from inside the country |
| Corporate income tax on dividend income | 0% | 0% | 0% | 0% |
| Withholding tax on dividends paid to overseas head office | 0% | 0% | 0% | 0% |
| Personal income tax for expatriates | 15% | 20% | 25% | 15% |

¹ If a Thailand ROH meets the minimum annual spending amount, the minimum investment amount is not required.

² If a Thailand ROH meets the minimum investment amount, the minimum annual spending amount is not required.

³ RHQ = Regional Headquarters.

⁴ IHQ = International Headquarters.

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RSM Advisory (Thailand) Ltd
26th Floor, Sathorn City Tower
175 South Sathorn Road
Bangkok 10120
Thailand

T: +66 2670 9002-6

F: +66 2670 9027-8

E: AskUs@rsmthailand.com

W: www.rsmthailand.com

This guide is intended to be a general indication of the tax laws applying in the countries and territories covered, and appropriate professional advice must be sought before any action is taken.

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