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THAILAND Newsletter

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Before Trading - What Taxes Do You Have to Pay When Trading Shares?

Investing in shares is a well-known form of investment. However, an investor must understand how taxes on shares will affect the return on their investment both in relation to capital gains when trading shares and on dividends when holding shares.

This article will focus only on the tax implications on stock-trading. Investors should be aware of three taxes related to trading stocks. These taxes are: (i) income tax on gains arising from stock-trading; (ii) stamp duty; and (iii) financial transaction taxes (which are also known as specific business taxes).

Income tax (Capital gains tax)

Generally, any profit received from the sale of shares is called 'capital gains'. Capital gains are regarded as assessable income under the Thai tax law and subject to income tax: (i) at a progressive rate of 5-35% for an individual investor who resides in Thailand more than 180 days in any tax year; and (ii) at the rate of 20% for a corporate investor registered or carrying on business in Thailand.

Investors that are non-residents of Thailand (individuals who reside in Thailand less than 180 days in any tax year or corporate investors who are not carrying on business in Thailand) are also subject to 15% withholding tax in Thailand. The withholding tax may be waived or reduced under a Double Tax Agreement between Thailand and the country that the non-resident investor is a resident of.

Exemption for trading on the SET: If the shares are listed on the Stock Exchange of Thailand (SET) and the sale of shares is conducted on the SET within the working hours of the SET, only the capital gains received by an individual investor will be exempt from income tax while a corporate investor and a non-resident investor are still required to pay income tax on capital gains.

Exemption to promote start-ups: In addition, the Thai cabinet approved a capital gains tax waiver for investment in local startups associated with twelve government-promoted industries. The government-promoted industries must be certified by designated organizations, including:

- New S-Curve industries - Aviation and logistics, biofuels and biochemicals, robotics, digital economy, and medical hubs.
- S-Curve industries - smart electronics, medical and wellness tourism, affluent tourism, agriculture and biotechnology, and food and future.
- Additional industries - defense and education, and human resource development.

This income tax exemption on capital gains will be provided to both Thai and foreign individuals and juristic persons regardless of whether such investors invest in a local startup directly or indirectly through venture capital (i.e., corporate venture capital (CVC), private equity trusts (PE trusts), shareholders of CVC funds, and unitholders of PE trusts). Investors will be eligible for the tax exemption on capital gains until 30 June 2032. To qualify for the tax exemption, a local startup is required to have at least 80% of its revenue derived from promoted industries while the investor must hold shares in the startup or fund units for at least 24 months prior to a transfer of shares or fund units.

Stamp duty

Share transfer documents are amongst the instruments included in the stamp duty schedule. As a general rule, the seller is liable to affix stamp duty at a rate of 0.1% on the paid-up value of the shares or of the nominal value of the instrument, whichever is greater, upon the execution date.

Transfer of stock on the SET is exempt from stamp duty. In addition, there is a scripless option for trading shares on the SET through the Thailand Securities Depository Company Limited (TSD). In this case there are no stamp duty issues to be concerned with.

Financial transactions tax

The financial transactions tax (FTT), also known as specific business tax (SBT), which is technically payable on the sale of shares by individual investors has been waived for more than 30 years (since 1991).

Possible changes in tax law that investors should be aware of

The Thai government is in the process of considering some amendments in relation to taxes imposed on share trading including capital gains tax and FTT.

Capital gains tax: As mentioned above, Thailand currently only collects capital gains tax on the sale of shares on the stock market from local and foreign institutions. Individual investors are exempt from capital gains tax. Many countries also collect capital gains tax on share sales on the stock market by individual investors in addition to the FTT.

The Ministry of Finance is studying the possibility of levying personal income tax on gains derived from the sale of shares on the stock market. Some investors opined that capital gains tax should be implemented instead of FTT as the tax would not apply if investors do not make a profit when they sell their shares. In addition, for long-term investors with capital gains higher than 1% and who are within a tax bracket above 10%, the FTT would have more impact than capital gains tax. However, the Revenue Department was of the view that capital gains tax could more adversely affect stock investors.

Currently, there are no concrete plans for the introduction of capital gains tax on the share sales on the stock market by individual investors, and the government seems to be in the initial stages of weighing up the advantages and disadvantages of introducing such measures. As such, the government has made no official comment on the matter, and there is currently no time frame for when such capital gains tax might be introduced.

Financial transaction tax: The Ministry of Finance is weighing up whether to end the waiver of FTT in 2022.

If the waiver is lifted, the FTT will be imposed at the rate of 0.1% on the transaction value with a volume of more than Baht 1 million per month, regardless of whether the transaction makes a profit or loss. In addition, the transaction would also be subject to a related local tax, therefore individual investors would be required to pay a total tax rate of 0.11% of the share sale transaction value.

Brokers acting for investors are obligated to collect and remit the FTT to the Revenue Department on monthly basis. However, once the Ministry of Finance approves the FTT implementation, it is estimated that it will take a couple of months to complete the linkage of stock trading data between the SET and the Revenue Department to facilitate tax collection.

One view is that the impact of the FTT will be confined to individual investors on the stock market since the FTT levied would increase the cost of trading for investors. The market sentiment may be negatively impacted if the FTT is implemented. However, the government believes that this FTT would not have a significant impact on the market and small investors since around 80-90% of stock investors' total share sale transactions do not exceed Baht 1 million a month.

If you have any questions in relation to the issues raised in this briefing, please contact the authors in the left-hand column.

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