VI

Bond Market Costs and Taxation

Changes related to bond market costs and taxation detailed in this update note focus on the recent introduction of concessions as well as the most recent changes to tax rates and taxation practices in the Thai bond market.

Interested parties are encouraged to confirm the applicability of market rates, fees, and charges detailed in the *ASEAN+3 Bond Market Guide for Thailand*.

A. Costs Associated with Bond and Note Issuance

The Government of Thailand's response to the economic impact of the COVID-19 pandemic has included a number of concessions in relation to activities in the bond or capital market, which are described below.

2. Filing of Registration Statement or (Draft) Offering Circular with the Securities and Exchange Commission (mandatory)

Since May 2019, the SEC has waived registration fees for green bonds, social bonds, and sustainability bonds issued between May 2019 and May 2020. This incentive was subsequently extended and will now be valid until 31 May 2022. Following the issuance of the SLB regulation in May 2021, this incentive was also expanded to include SLBs.

3. Registration with the Thai Bond Market Association

ThaiBMA announced on 27 March 2019 that the application fee for green, social, and sustainability bonds issued pursuant to SEC regulations will be waived, with the annual fee reduced by THB10,000 per year, effective from 26 March 2019 to 28 June 2020. Similarly, this incentive was subsequently extended until June 2022 and expanded to include the SLBs.

G. Taxation Framework and Requirements

This section only covers changes in the treatment of investment income from debt securities for mutual funds. For other subjects related to taxation, please refer to Chapter VI.G in the *ASEAN+3 Bond Market Guide for Thailand*.

8. Investments in Debentures Through Mutual Funds

As of April 2019, investments in debentures by mutual funds established under the Thai securities and exchange law are exempt from income tax under the Revenue Code because mutual funds are juristic persons separate from fund management institutions. All benefits that mutual funds receive in interest, capital gains, and discounts are exempt from tax computation. However, unit holders of mutual funds are liable to income tax applicable to natural or juristic persons, as the case may be, on profit sharing of the investment units in the same manner as the tax liability of investments in equity instruments.

Nevertheless, the Amendment of Revenue Code regarding Tax on Income from Debt Instruments Received by Mutual Funds (Amendment Act) was approved by the National Legislative Assembly on 13 February 2019. The Amendment Act was subsequently published in the Royal Gazette on 22 May 2019 and came into effect on 22 August 2019, or 90 days after its publication in the Royal Gazette. The Amendment Act aims to equalize an effective income tax rate arising from debt instruments held by a direct investor and an indirect investor who invests through mutual funds by changing the mutual fund's status to a tax entity under the Revenue Code, prescribing a tax implication on the interest income of a mutual fund and improving tax implication on the mutual fund's investor.

According to the Amendment Act, the interest income of mutual funds paid from investments in debentures is required to be included for mutual fund's tax computation and is subject to a 15% income tax on gross income, provided that such debentures are received on the effective date of the Amendment Act onward. Gross income shall include only income as established under Section 40(4)(a) of the Thailand Revenue Code, such as interest income and discounts derived by the mutual funds. The income tax can be collected via a withholding tax mechanism applicable on the payment of such income by the issuer of respective debt instruments, resulting in issuers of debt instruments (which previously had no withholding tax obligations on payments made to mutual funds) being required to deduct a 15% withholding tax on such payments (similar to their withholding tax obligations already applicable on payments to other investors). However, it is worth noting that any tax withheld can be credited against the mutual fund's income tax payable and that it should not apply to income arising from deposits, bills, or debt instruments held before the entry into force of the Amendment Act (i.e., before 20 August 2019).[21]

[21] See KPMG Thailand. 2019. Thailand Tax Updates.