

Thailand Proposes an Inheritance Tax

Thailand's Prime Minister and head of the National Council for Peace and Order (NCPO) General Prayuth Chan-Ocha announced plans to reform Thailand's tax system. As part of the reforms, the PM proposed an inheritance and property tax. The new taxes are expected to address the income disparity gap between Thailand's rich and poor.

In 1933 Thailand had initiated a scheme for the collection of inheritance taxes, however, due to strong opposition the scheme was scrapped in 1944. Since then many similar proposals to incorporate inheritance tax into Thailand's tax system have been considered, however, none of the proposals became written into law.

The current version of the proposed bill is called the "Draft Bill on Inheritance and Gift Taxes" and has been approved by the NCPO and forwarded to the Council of States for their review and approval. Should the bill be passed by the Council of States, it will then be submitted to the National Legislative Assembly (NLA) for ratification.

What is an inheritance tax?

An inheritance tax is a tax that is levied on a person(s) who inherits money, property or other assets from the estate of a person who has died. An inheritance tax is assessed on the beneficiaries of the deceased estate.

Some countries that have an inheritance tax include:

- Belgium
- Brazil
- Czech Republic:
- Finland:
- France: (droits de succession)
- Germany: (Erbschaftssteuer)
- Ireland: Inheritance tax (Cáin Oidhreachta)
- Italy: tassa di successione (Inheritance tax).
- Japan: souzokuzei 相続税 (Inheritance tax)
- The Netherlands: Successierecht (Inheritance tax)

- United Kingdom
- United States

Some jurisdictions formerly had inheritance taxes, but have since abolished them:

- Australia: A capital gains tax is payable on the sale or transfer of assets.
- Austria
- Canada: A capital gains is payable on the sale of transfer of assets
- Hong Kong
- India
- New Zealand

Singapore: abolished for deaths occurring on or after 15 February 2008

What can we expect from the Draft Bill on Inheritance and Gift Taxes?

It is expected that revenue from a successful implementation of inheritance tax into Thailand's tax system could be significant. Despite the proposed inheritance tax rate being a closely guarded secret, some experts believe that progressive rates are likely to be implemented on domestic assets that are passed to heirs, such as land, houses, buildings, bonds, shares, securities, monies in savings accounts and vehicles. At this point it is unknown what assets, if any, will be exempted from the inheritance tax. It is however, expected that a list will be provided via a Royal Decree upon the implementation of the inheritance tax.

The inheritance tax is expected to apply to (i) an individual who is a Thai national, (ii) an individual who is not a Thai national, but has domicile in Thailand, (iii) a juristic person who has its head office in Thailand for three consecutive years before the date it is entitled to the inherited assets or (iv) an individual who is not a Thai national, but is to receive inherited assets located in Thailand.

From what is currently understood, the draft bill proposes that an individual who receives assets via disposition by will or intestacy with a net value under THB 50 million will be exempt from the inheritance tax. Assets exceeding a net value THB 50 million but below THB 200 million will be subject to 10% and individuals who inherit assets with a net value exceeding THB 200 million will be subject to a rate of 20%. It is not clear how the assets will be valued and if any additional relief will be granted.

The draft bill provides certain tax exemptions for an individual or organization who receives the assets via a will and declares an intention to use the inherited assets for the purpose of religion, education, public interest or government.

The inheritance tax proposal, if successful, could result in Thailand's wealthy seeking to realize assets or transferring assets before the law becomes effective. Only time will tell if the draft bill makes it into Thai law, but for now, it seems that the NCPO are insistent in bringing reform to the country. If successful, it is likely that the inheritance tax will be implemented in 2015.

What tax planning is available to Thai residents in light of the new proposed inheritance tax?

At this stage it is difficult to know for sure what the final bill will look like. However, based on the experience of other jurisdictions with an inheritance tax, residents will typically seek planning on:

- Succession: how will the assets be managed after death. For example, the assets may not pass until a certain age or year is reached.
- Asset protection: protection of the assets from potential future creditors
- Tax planning: Assets may be held in a tax efficient structure such as a trust in a tax favorable jurisdiction where no inheritance will be applied to the assets.

We trust that you find our tax updates and article helpful. If you would like to discuss the inheritance tax or any other tax issues in Thailand with one of our tax lawyers, please feel free to contact us.

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