

## Preface

### Recommended Tax Optimization Strategy for a China Company with a Subsidiary in Thailand

This document outlines a structured tax optimization strategy for a China incorporated company operating through a Subsidiary in Thailand. The strategy leverages four principal mechanisms, carefully structured in accordance with the Thailand–China Double Taxation Agreement (DTA) to mitigate double taxation risks and optimize cross-border tax exposure:

1. Dividend Distributions
2. Royalties and Licensing Arrangements
3. Shareholder Loan Financing
4. Management and Service Fee Allocation

Each lever is analyzed with consideration of withholding tax implications, transfer pricing requirements, deductibility rules, and treaty relief provisions under the Thailand–China DTA.

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## 1. Dividend Repatriation

For a Chinese parent, dividends are the most straightforward but often "tax-heavy" route compared to other methods.

- **The Rate:** Under the Thailand-China DTA, the Withholding Tax (WHT) on dividends is 10%. (Unlike the HK or Singapore treaties, there is generally no 5% reduced rate for high-ownership percentages).
- **Thai Statutory Reserve:** You must still allocate 5% of net profits to a legal reserve until it reaches 10% of the subsidiary's registered capital.
- **China Side (CIT):** In China, you will pay Corporate Income Tax (usually 25%) on these dividends. However, you can claim a Foreign Tax Credit (FTC) for the 10% WHT paid in Thailand and the "underlying" 20% CIT paid by the Thai subsidiary (Direct and Indirect Tax Credits).

## 2. Royalties and License Fees

This is the most effective "tax-shield" for Chinese parents providing technology, trademarks, or manufacturing processes.

- **DTA Advantage:** The WHT is capped at 10% for patents, designs, or models.
- **Efficiency:** Royalties are a deductible expense in Thailand. By paying a 10% WHT instead of the 20% Thai CIT, you effectively save 10% in "leakage" while moving funds out.
- **Audit Risk:** The Thai Revenue Department (TRD) and the Chinese State Taxation Administration (STA) both focus heavily on Transfer Pricing. In 2026, you must ensure the

"Benefit Test" is met: you must prove the Thai subsidiary actually benefited from the IP to justify the deduction.

### 3. Shareholder Loans (Debt vs. Equity)

If the Chinese parent has excess liquidity, lending to the Thai subsidiary is a strategic move.

- DTA Rate: WHT on interest is 10% if paid to a Chinese bank or financial institution, and 15% for general corporate parents.
- The Strategy: Even at 15% WHT, the interest is deductible against the 20% Thai CIT.
- China's "Safe Harbor": Ensure your debt-to-equity ratio doesn't trigger China's thin-capitalization rules (typically 2:1 for non-financial enterprises). If the loan is too large relative to equity, the Chinese tax authorities may disallow interest income benefits.

### 4. Service and Management Fees

For 2026, this is a high-scrutiny area for China's State Administration of Foreign Exchange (SAFE).

- WHT Rate: Often 0% if the service is performed entirely in China.
- The Challenge: To remit these funds back to China, you must provide the Thai bank with a "Tax Payment Certificate" or proof of exemption. Furthermore, the Chinese parent must declare this as service income and pay 6% VAT in China.
- Benefit: Like royalties, these are deductible in Thailand, lowering your local tax base.

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### Summary Table: China vs. Thailand Tax Impact

Method	Thai WHT (DTA)	Thai CIT Deductible?	China Tax Impact
Dividends	10%	No	25% CIT (minus Tax Credits)
Royalties	10%	Yes	25% CIT (minus 10% WHT credit)
Interest	15%	Yes	25% CIT (minus 15% WHT credit)
Service Fees	0%	Yes	25% CIT + 6% China VAT

## Critical Compliance for 2026

1. **SAFE Registration:** Unlike HK, moving money into China requires strict adherence to SAFE regulations. You must ensure the Thai subsidiary's "Investment Project" is properly registered with China's NDRC and MOFCOM to avoid delays in receiving funds.
2. **Transfer Pricing Documentation:** If your intercompany transactions exceed 200 million THB, you must file a TP Disclosure Form in Thailand. Failure to do so triggers automatic audits in both jurisdictions.
3. **CFC Rules:** China's Controlled Foreign Corporation (CFC) rules allow the STA to tax the Thai subsidiary's undistributed profits if they believe the profit is being "parked" in Thailand to avoid Chinese tax. Ensuring regular (even if small) dividend payments can help mitigate this risk.

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