

Preface

Recommended Tax Optimization Strategy for a Indonesia Company with a Subsidiary in Thailand

This document outlines a structured tax optimization strategy for an Indonesia incorporated company operating through a Subsidiary in Thailand. The strategy leverages four principal mechanisms, carefully structured in accordance with the Thailand–Indonesia 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–Indonesia DTA.

1. Dividend Repatriation

For an Indonesian parent, dividends are the standard method, but they require careful synchronization with Indonesia's Foreign Tax Credit (FTC) rules.

- **The Rate:** Under the Thailand-Indonesia DTA, the Withholding Tax (WHT) on dividends is 10%.
- **Thai Statutory Reserve:** As with other limited companies, you must set aside 5% of net profits into a legal reserve until it reaches 10% of the subsidiary's registered capital.
- **Indonesian Side:** In 2026, Indonesia's Corporate Income Tax (CIT) is generally 22%. However, dividends from offshore subsidiaries can be tax-exempt in Indonesia if they are reinvested in specific Indonesian territory/business activities for at least 3 years (under the Omnibus Law provisions). If not reinvested, they are taxed at the normal CIT rate, with a credit allowed for the 10% Thai WHT.

2. Royalties and License Fees

This is often the most efficient way to lower the "Global Effective Tax Rate" for Indonesian groups with proprietary technology or brands.

- **DTA Advantage:** The WHT on royalties is capped at 10% under the DTA.
- **The "Tax Shield":** These fees are deductible expenses in Thailand, reducing the 20% Thai CIT. This effectively trades a 20% tax for a 10% WHT—a clear 10% net gain in cash flow.

- **2026 Substance Test:** The Indonesian Directorate General of Taxes (DGT) is now hyper-focused on the Beneficial Owner status. You must prove the Indonesian HQ actually owns the IP and has the personnel/expertise to manage it, or the DGT may challenge the 10% treaty rate.

3. Shareholder Loans (Debt vs. Equity)

Financing the Thai subsidiary through debt allows you to pull cash back as interest.

- **DTA Rate:** Interest WHT is 15% for general corporate lenders (reduced to 10% if the lender is an Indonesian bank or financial institution).
- **Thin Capitalization:** Indonesia's Debt-to-Equity Ratio (DER) rules are strict. To ensure the interest income is treated favorably at the parent level and deductible at the Thai level, keep the subsidiary's DER within a 4:1 ratio.
- **Currency Risk:** Given the volatility of the IDR vs. THB, 2026 agreements should include a clear clause on who bears the foreign exchange risk, as "forex losses" can be a sensitive audit point for Thai authorities.

4. Technical and Management Services

- **WHT Rate:** Usually 0% if the service is performed in Indonesia and the Indonesian company has no "Permanent Establishment" (PE) in Thailand.
- **VAT Treatment:** In Indonesia, providing services to your Thai subsidiary is an "Export of Services," which is 0% VAT in Indonesia. However, the Thai subsidiary must self-assess 7% Thai VAT (Reverse Charge).
- **The "Technical" Trap:** If the services involve "know-how" transfer, the Thai Revenue Department may reclassify the payment as a Royalty (10% WHT). Clearly distinguish between "Administrative Support" (0% WHT) and "Technical Consultancy."

Summary Table: Indonesia-Thailand Profit Flow

Method	Thai WHT (DTA)	Thai CIT Deductible?	Indonesia Tax Impact
Dividends	10%	No	Potentially Exempt (if reinvested).
Royalties	10%	Yes	22% CIT (minus 10% WHT credit).

Interest	15%	Yes	22% CIT (minus 15% WHT credit).
Service Fees	0%	Yes	22% CIT; 0% Export VAT.

2026 Strategic Compliance (Indonesia Specifics)

1. Coretax System Integration: Indonesia's new Coretax system (fully operational in 2026) requires more granular reporting of "Foreign-Sourced Income." Ensure the Thai WHT certificates are digitized and mapped correctly to your Indonesian tax ID (NPWP) to avoid credit claim rejections.
2. Pillar Two (Global Minimum Tax): If your group's global revenue exceeds €750 million, you must monitor the 15% Global Minimum Tax. If the "effective" tax in Thailand falls too low due to incentives, Indonesia may apply a "Top-up Tax."
3. LOB (Limitation of Benefits): To use the 10% DTA rate, you must provide a Certificate of Tax Residence (DGT Form) from Indonesia to the Thai subsidiary. Without this, the Thai bank will automatically withhold the domestic 15%-20% rate.

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