

Preface

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

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

1. Dividends (The 95% Exemption Strategy)

Historically, Korea used a "Tax Credit" system, but following the 2023 reforms (solidified in the 2026 tax code), Korea now operates a territorial-style exemption for foreign dividends.

- Thai Withholding Tax (WHT): Under the Thailand-Korea DTA, the WHT on dividends is 10% (provided the Korean HQ owns at least 25% of the Thai subsidiary).
- Korean Side (95% Exclusion): If the Korean HQ has held at least 10% of the Thai subsidiary for 6 months or more, 95% of the dividend is exempt from Korean Corporate Income Tax (CIT).
- The "Residual" Tax: Only the remaining 5% is taxed at Korea's 2026 CIT rates (which have returned to the 10%–25% brackets plus local surtax). This makes dividends an incredibly cheap way to bring home "after-tax" cash.

2. Royalties and License Fees

This is the primary tool for "pre-tax" profit stripping, especially for Korea's robust manufacturing and tech sectors.

- DTA Advantage: The WHT is capped at 15% for general royalties, but can be reduced to 10% for industrial, commercial, or scientific equipment/experience (Know-How).
- The "Tax Shield": These fees are deductible in Thailand (saving you 20% CIT).
- Indirect Tax Credit: Since royalties are fully taxable in Korea, you cannot use the 95% exclusion. Instead, you claim a Foreign Tax Credit in Korea for the 10% or 15% WHT paid in Thailand to offset your Korean tax bill.

3. Shareholder Loans (Interest)

Korea's "Thin Capitalization" rules are a critical factor here.

- **DTA Rate:** WHT on interest is 15% for general corporate lenders (reduced to 10% for financial institutions).
- **Thin-Cap Rule (2:1):** Korea limits the debt-to-equity ratio for tax purposes to 2:1. If the Korean HQ lends more than twice its equity to the Thai subsidiary, the "excess" interest might be recharacterized by Korean authorities.
- **Net Interest Limitation:** In 2026, Korea strictly enforces the rule where interest deductions are capped at 30% of adjusted taxable income (EBITDA). Ensure your Thai subsidiary's loan doesn't exceed this threshold to keep the deduction valid in Thailand.

4. Technical and Management Services

- **WHT Rate:** Generally 0% if the service is performed in Korea and the HQ has no "Permanent Establishment" (PE) in Thailand.
- **2026 Compliance Update:** As of Jan 1, 2026, the Korean government has made it mandatory to submit formal "Applications for Reduced Treaty Rates" to the tax office. You can no longer just "keep them on file"; they must be filed by the end of February following the payment year.
- **VAT:** Remember that Thai banks will require proof of the 7% VAT (Reverse Charge) filing before allowing the 0% WHT remittance for services.

Summary Table: Korea-Thailand Profit Flow (2026)

Method	Thai WHT (DTA)	Thai CIT Deductible?	Korean Tax Impact
Dividends	10%	No	95% Exempt (Territorial system).
Royalties	10% – 15%	Yes	Taxable (with Foreign Tax Credit).
Interest	10% – 15%	Yes	Taxable (subject to 2:1 Thin-Cap).
Service Fees	0%	Yes	Taxable in Korea as regular income.

2026 Strategic Recommendations for Korean HQs

1. CFC Rule (16.8% Threshold): Korea's Controlled Foreign Company (CFC) rules apply if the Thai subsidiary's effective tax rate is below 16.8% (70% of the top 24% rate). If your Thai sub has a BOI tax holiday bringing it below this level, Korea may tax its *undistributed* earnings immediately.
2. Pillar Two (Global Minimum Tax): Since Jan 1, 2025/2026, Korea has implemented the QDMTT and IIR (Income Inclusion Rule). If your group revenue exceeds €750 million, you must pay a "top-up tax" in Korea if the Thai subsidiary's effective tax rate is below 15%.
3. Mandatory Reporting: Ensure the Thai subsidiary files its Transfer Pricing (TP) Disclosure Form if revenue exceeds 200M THB. Korean NTS (National Tax Service) is increasingly using "Exchange of Information" protocols to verify that Thai deductions match Korean income declarations.

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