

Preface

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

This document outlines a structured tax optimization strategy for a Vietnam incorporated company operating through a subsidiary in Thailand. The strategy leverages four principal mechanisms, carefully structured in accordance with the Thailand–Vietnam 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, foreign tax credit treatment in Vietnam, transfer pricing compliance requirements (including Decree 132), deductibility rules under Thai Corporate Income Tax regulations, and treaty relief provisions under the Thailand–Vietnam DTA.

1. Dividend Repatriation (The FTC Route)

Vietnam taxes its resident companies on worldwide income. When the Thai subsidiary pays a dividend to the Vietnam HQ, it is treated as taxable income in Vietnam.

- Thai Withholding Tax (WHT): Under the DTA, the WHT on dividends is capped at 15%. (Note: While many other Thai DTAs offer 10%, the Vietnam-Thailand treaty remains at 15%).
- Vietnam Side (CIT): The dividend is subject to Vietnam's standard Corporate Income Tax of 20%.
- The "Credit": Vietnam allows you to claim a Foreign Tax Credit for the 15% WHT paid in Thailand.
 - *Example:* For every \$100 in dividends, you pay \$15 to Thailand. Vietnam taxes \$20 but credits the \$15 paid, leaving only a \$5 residual tax to be paid in Vietnam.
- Thai Statutory Reserve: Don't forget the Thai requirement to set aside 5% of net profits into a legal reserve until it reaches 10% of the subsidiary's registered capital.

2. Royalties and License Fees

This is often the most effective way to lower the "Global Effective Tax Rate" because these payments are deductible expenses in Thailand.

- **DTA Advantage:** The WHT is capped at 15% for all types of royalties (including patents, trademarks, and industrial/scientific equipment).
- **Efficiency:** By paying a 15% WHT instead of the 20% Thai CIT, you "strip" the profit out of Thailand with a 5% tax saving locally.
- **Vietnam Impact:** Like dividends, royalty income is taxed at 20% in Vietnam, but the 15% Thai WHT is fully creditable. This ensures the total tax burden on that income never exceeds 20%.

3. Shareholder Loans (Interest)

Vietnam HQs often use loans to provide initial capital, allowing for cash recovery through interest payments.

- **DTA Rate:** WHT on interest is 10% if the lender is a bank or financial institution and 15% for general corporate parents.
- **The Strategy:** Interest is a deductible expense in Thailand, reducing the 20% CIT.
- **2026 Vietnam Context:** In 2026, Vietnam's tax authorities are increasingly strict on "Loan-to-Equity" ratios and interest rates. Ensure the interest rate is "arm's length" (market-based); if it is too high, the Vietnamese authorities may treat the excess as a "deemed dividend" or disallow deductions at the parent level.

4. Technical and Management Services

- **WHT Rate:** Generally 0% if the service is performed entirely in Vietnam and the HQ has no "Permanent Establishment" (PE) in Thailand.
- **The Challenge:** To remit these funds, the Thai bank will require a Certificate of Residence from the Vietnamese tax authorities.
- **VAT:** Remittance of service fees and royalties triggers 7% Thai VAT (Reverse Charge). While the Thai subsidiary can usually claim this back as input VAT, it is a cash-flow consideration.

Summary Table: Vietnam-Thailand Profit Flow (2026)

Method	Thai WHT (DTA)	Thai CIT Deductible?	Vietnam Tax Impact
Dividends	15%	No	20% CIT (minus 15% WHT Credit).
Royalties	15%	Yes	20% CIT (minus 15% WHT Credit).

Interest	10% – 15%	Yes	20% CIT (minus WHT Credit).
Service Fees	0%	Yes	20% CIT in Vietnam.

2026 Strategic Recommendations for Vietnamese HQs

1. Pillar Two (Global Minimum Tax): As of 2024/2026, Vietnam has adopted the Income Inclusion Rule (IIR). If your group revenue exceeds €750 million, and your Thai subsidiary's effective tax rate falls below 15% (e.g., due to BOI incentives), the Vietnam HQ may be required to pay a Top-up Tax in Vietnam to bring the total rate up to 15%.
2. Transfer Pricing: Vietnam's Decree 132 on Transfer Pricing is one of the strictest in the region. You must prepare a Local File in Vietnam if your intercompany transactions exceed certain thresholds. Discrepancies between what the Thai subsidiary pays and what the Vietnamese HQ receives are a high-audit risk.
3. BOI Exemptions: If your Thai subsidiary qualifies for Board of Investment (BOI) promotion, it may be exempt from the 10% WHT on dividends during its tax holiday. In this case, since no tax is paid in Thailand, you would pay the full 20% CIT in Vietnam (as there is no FTC to claim).

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