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BY Invitation

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Get to know your tax deductions

Many executives, Thai as well as non-Thai, with relatively high salaries of about 400,000 baht per month are most likely to hit the highest tax rate of 37%. The government considers salaried employees a low-risk profession because the employer, corporate or otherwise, pays all benefits, including monthly salary, housing and education allowance, car, and others. Therefore, an employee is allowed only a standard deduction of 60,000 baht per year regardless of how much he makes.

This compares unfavourably to the breaks offered to a businessman running his own enterprise. Unfortunately the Finance Ministry offers few incentives to increase your deduction.

I have been telling salaried workers that the best tax shelter today is a provident fund if one is offered by your employer. Employees can put up to 15% of their salary, or a maximum of 300,000 baht per year, and claim it as a deduction. On top of this, whatever the company contributes up to 300,000 baht annually is a corporate deduction and tax-free for the employee. Therefore, you have double savings and double deduction. You cannot get this benefit anywhere else. In addition, all earnings, interest, dividends, or capital gains earned or accrued on the provident fund is tax-exempt or deferred until you take it out.

When you liquidate your holdings in a provident fund, if you have been a member for at least five years and you are 55 years or older, the pay-out for the employer contribution and all earnings is tax free. Please check the fund rules on whether it allows you to retire at age 55. The normal age is 60. If it does not allow you to retire at 55, you may want to get the rule amended so that you can. This gives you more flexibility.

However, if your company has no provident fund, you can buy unit trusts in a Retirement Mutual Fund (RMF), which has a similar function with a 300,000 baht deduction. The difference is that there is no employer contribution. An RMF allows you to take the money out tax-free when you hold it for five years and are at least 55 years old.

If you can afford more savings, there is the Long Term Equity Fund, or LTF. This allows you to shift 15% of your earnings for a tax deduction up to 300,000 baht per year. An LTF is more flexible because you need to leave the money for five years and you do not have to wait until you are 55 to take it out.

Although an investment in an LTF is more volatile because it invests in stocks, several mutual fund companies have introduced LTFs that hedge against derivatives to protect against downsides. This type of LTF is similar to a fixed-income investment as opposed to an equity investment.

If you can maximise your benefits from a provident fund, RMF and LTF, you can deduct up to 900,000 baht annually. If you fall in the 30% bracket, you can save 270,000 baht. Bear in mind that this is the annual savings, so you enjoy it year after year.

According to an unofficial survey, about 250,000 people earn three million baht or more and only 10% of them take advantage of RMFs and LTFs. So you might want to consider the tax benefits.

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