

Bond Market Costs and Taxation

This chapter details the typical costs incurred by issuers and investors in the Thai bond market, with an emphasis on costs associated with bond and note issuance and settlement.

For ease of reference, the descriptions of the types of costs are given in the context of the actions to be taken by issuers or investors (as explained in this document), and follow the life cycle of a bond or note in the Thai bond market.

A. Costs Associated with Bond and Note Issuance

1. Baht Bond Concept (issuance of THB-denominated bonds and notes by nonresidents)

A nonresident (foreign) entity may only issue THB-denominated bonds and notes following the approval of the MOF's PDMO under the so-called Baht Bond concept. The PDMO does not charge a fee for applications under the Baht Bond approval process. However, in case the issuer decides to appoint an intermediary (e.g., a Financial Adviser) to handle or assist in the application process, a service fee should be expected.

2. Filing of Registration Statement or (Draft) Offering Circular with the Securities and Exchange Commission (mandatory)

All bond and note issuances in Thailand require the approval of, and the filing of a Registration Statement with the SEC. This issuance application and approval process differs between a public offer (Filing of Registration Statement and [Draft] Prospectus) and a private placement (Filing of [Draft] Offering Circular). For details and conditions of the application processes, please refer to Chapter II.F.

The SEC applies a fee for the filing of either form of Registration Statement, payable on the day of its submission. The fee amount and other considerations are prescribed in a corresponding SEC Notification, Notification of the Office of the Securities and Exchange Commission Sorbor 28/2547 Re: Provisions on Fees for Filing Registration Statement, Permission by Registration and All Applications for Obtaining Approval.

Similar to other actions in the regulatory process for bond and note issuance in Thailand, should the issuer need to appoint intermediaries to facilitate submissions of applications and supporting information, such services would add to the cost of the process

3. Registration with the Thai Bond Market Association

The registration process with ThaiBMA includes a capped one-time registration fee and a capped annual fee for the first 6 years of the tenure of the bond or note (Table 6.1), which are charged by ThaiBMA to the issuer.

Table 6.1: Thai Bond Market Association Registration Fees

	Registration Fee
Upfront fee	0.01% of issue size (Min 35,000 Baht, Max 350,000 Baht)
Annual fee	<ul style="list-style-type: none"> - 1-5 years -> 10,000 + 0.001% of issue size (max 100,000 Baht/year) - 6-7 years -> 10,000 + 0.0005% of issue size (max 100,000 Baht/year) - >7 years -> no fee
Total registration fee is capped at 0.02 of issue size	

Source: Thai Bond Market Association.

4. Financial Adviser Fee (optional)

As a typical market practice, issuers in the Thai bond market tend to appoint a Financial Adviser for the purpose of filing issuance approval applications with the respective regulatory authorities. The Financial Adviser may be appointed in addition to an underwriter, and may also carry out other chargeable services for the issuer.

There is a fee for such services provided by the Financial Adviser, which should be expected to follow established market practice and may be subject to negotiations between the issuer and Financial Adviser.

5. Underwriter Fee (optional)

Issuers are not required by law to appoint an underwriter. However, larger private placements and public offers of corporate bonds and notes may require the services of one or more underwriters to place the bonds and notes with institutional investors or distribute the issuance to the public.

Underwriters charge a fee, typically commensurate with the effort and risk of taking over parts or all of a bond or note issue from the issuer. This fee or service charge should be expected to follow established market practice and may be subject to negotiations between the issuer and underwriter(s).

B. Ongoing Costs for Issuers of Corporate Bonds and Notes, and Commercial Paper

1. Interest Payment and Redemption Fee at the Thailand Securities Depository

- (a) For processing of an interest payment, TSD collects a fee for the compilation of the bondholders' list on the record date at the rate of THB5 per transaction, with a minimum fee of THB500 per security.

- (b) For the processing of a redemption, TSD collects a fee for the compilation of the bondholders' list on the record date at the rate of THB5 per transaction, with a minimum fee of THB500 per security.

2. Contribution to the Financial Institutions Development Fund

The BOT levies a contribution to the FIDF on all Thai baht fund-raising activities by domestic financial institutions in Thailand, in addition to the premium on customer deposits payable to the DPA (see Chapter III.P). FIDF-relevant activities include the issuance of bonds and notes denominated in Thai baht, borrowing transactions and repo. Domestic branches of foreign financial institutions are also subject to the levy. For the relevance for a bond or note issuance by foreign financial institutions and the onlending to their domestic branch, please refer to Chapter II.M.

The contribution is to be remitted to the BOT semiannually, in July and January for the preceding 6-month period.⁴¹ Outstanding bonds and notes are to be included in the average balance of fund-raising activities during their tenure.

C. Costs Associated with Deposit and Withdrawal of Bonds and Notes⁴²

TSD acts as the central depository and settlement center for most of the corporate bonds and notes issued in the Thai market. The service provision by TSD includes the following charges:

1. Deposit Fee

TSD applies a deposit fee of THB10 for each deposit transaction of securities, including bonds and notes, into TSD by one of its members, whether for their own or a client's account. Investors need to deposit securities via a TSD member.

2. Withdrawal Fee

TSD also collects a withdrawal fee from TSD members for withdrawing securities, including bonds and notes, from the book-entry system. A withdrawal of government or corporate bonds or notes is charged at the rate of THB35 per transaction in a single depository account; other securities are charged at THB65 per transaction. Redemption does not count as a withdrawal.

D. Costs for Account Maintenance at the Thailand Securities Depository

1. Account Maintenance Fee at the Thailand Securities Depository

TSD collects a maintenance fee on the basis of the remaining securities in the depository account on a monthly basis. Since TSD does not maintain depository accounts for individual

⁴¹ For the current rate of contribution, please see https://www.bot.or.th/English/BOTStoryTelling/Pages/FIDF_StoryTelling_FI.aspx

⁴² For further details, please refer to the following link: <http://www.set.or.th/tsd/en/service/service2a.html#9>

investors (omnibus account concept), TSD charges the fee to participant members (brokers and custodians) who maintain accounts under their name. Brokers and custodian in turn tend to defray these costs as part of their custody or safekeeping charges to their clients.

The account maintenance fees differ by type of securities. Corporate bonds and notes attract a fee of THB1 per par value unit (e.g., THB1,000 denomination), while government and quasi-government bonds, bills, and notes are charged at THB0.25 per par value unit.

E. Costs Associated with Bond and Note Trading

1. Brokerage Fees

Securities brokers who are SET members charge brokerage fees or commission on the buying or selling of securities, including fixed-income securities listed on TBX or the SET's main board.

Following implementation of the SET's plan to fully liberalize the securities business in January 2012, the brokerage fee or commission is freely negotiable between broker and client, but attracts a value-added tax (VAT) of 7%.

F. Costs Associated with Bond and Note Settlement and Transfer

TSD acts as the central depository and settlement center for most of the corporate bonds and notes issued in the Thai market. The service provision by TSD includes the following charges:

1. Transaction Fee (Transfer Fee)

TSD collects a transaction fee (or transfer fee) for each settlement transaction in the book-entry system (through the accounts maintained by TSD participants). TSD charges the fee to participant members (brokers and custodians) who in turn tend to defray these costs as part of periodic transaction fees charged to their clients.

The transaction (transfer) fee for bonds and notes is THB10 for each instance.

Transfers of securities as a result of TSD repo or securities borrowing and lending transactions are exempt from this transaction or transfer fee since a separate repo or SBL fee is already being levied.

2. Repo and Securities Lending Fee

TSD charges a fee for the transactions it facilitates under its repo and SBL services. Put-through transactions are charged at 5% of the lending fee (with a minimum fee of THB100), while settlement coverage transactions are charged at 10% of the lending fee of the transaction (with no minimum fee). The fees are collected from both borrower and lender.

G. Taxation Framework and Requirements

Residents and nonresidents investing in the Thai market are subject to a number of duties and taxes on fixed-income securities as shown in Table 6.2. The application of the various duties and taxes is explained in subsequent sections.

Table 6.2: Duties and Taxes on Fixed-Income Securities

Duties and Taxes	Type of Bond	Tax Rate
Withholding Tax	Government	Exempt or 15% ^a
	Corporate	15%
Capital Gains Tax	Both	0%–15% subject to DTA
Stamp Duty	Both	n.a. ^b
Other Taxes—VAT	Both	7%

DTA = double taxation agreement, n.a. = not applicable, VAT = value-added tax.

^a For application of exemptions, please refer to sections below; otherwise, a withholding tax of 15% will apply.

^b For applicable conditions, please refer to section G.3 in this chapter.

Source: ADB Consultants for SF1 based on data from PricewaterhouseCoopers Services.

1. Withholding Tax

The tax liability of incomes from investments in debentures is classified into three categories: (i) interest income; (ii) capital gains; and (iii) discount, or the difference between the redemption price and bid price, and bid price in the case of debentures that yield no interest but are sold below the redeemed value. The tax is determined by the type of income and the nature of the investor or income earner. Generally, payers withhold income tax upon payment at rates of 15% on natural persons, 1% on juristic persons, and 10% on foundations or associations.

Investments in debentures by mutual funds are exempt from income tax on capital gains because mutual funds are juristic persons separate from fund management institutions. All benefits that mutual funds receive in interest, capital gains, and discounts are exempt from tax computation. But unit holders of mutual funds are liable to income tax applicable to natural or juristic persons, as the case may be, on dividends or profit sharing of the investment units in the same manner as the tax liability of investments in equity instruments.

For applicable exemptions from withholding tax on debt securities, please refer to section G.6 in this chapter.

2. Capital Gains Tax

Capital gains from investment in debt securities are typically assessed as ordinary income and subject to withholding tax as mentioned in the previous section. Exemptions from capital gains tax exist for non-interest-bearing government bonds and corporate debt instruments.⁴³

⁴³ Please refer to <http://www.pwc.com/th/en/tax/assets/2012/thai-tax-2012-booklet.pdf>

There is no capital gains tax applicable to securities transfers that are part of a repo transaction.

Capital gains cannot be offset with capital losses.

3. Stamp Duty

A stamp duty on debt securities is applied to physical certificates of nonlisted securities only. The stamp duty rate is THB1 for every THB1,000 of the actual trade value, not on the face value of the debt securities certificates.

4. Specific Business Tax

A Specific Business Tax (SBT) is collected from individuals, groups of persons who are not juristic persons, and any other juristic persons on income derived from engaging in banking, finance and securities, credit foncier, life insurance, pawn brokerage, semicommercial banking, and real estate. Banking, financial, and securities institutions pay SBT on interest income, discounts, fees, service fees, and gross profits-before-expenses from transactions in any bills or debentures, foreign exchange, drafts, or overseas remittance. The SBT on incomes relative to bonds is levied at 0.01% and is to be remitted to government authorities.

5. Value-Added Tax (VAT)

In principle, all fees for services provided by intermediaries in the Thai capital market to their resident clients are subject to VAT. Nonresident investors do not pay VAT; hence, invoices for service provisions by domestic bond market institutions do not include VAT on such services.

6. Double Taxation Agreements

Double taxation agreements (DTAs) are treaties signed by Thailand with other countries that specify tax exemption on income derived from investments, whereby investors are only liable to pay income tax in one country as a means of inducing foreign investment. A DTA applies to persons who are residents of the contracting states and applies to direct taxes, including personal income tax, corporate income tax, and petroleum income tax. Other indirect taxes such as VAT, SBT, and excise taxes are not covered by DTAs. DTAs also prescribe a ceiling rate for tax collection, which the source country must not exceed.

7. Tax Exemption for Nonresident (Foreign) Investors

Under Ministerial Notifications No. 249 B.E. 2548, 2005 and Royal Decree No. 429 B.E. 2548, 2005, individuals, juristic companies, and partnerships established under foreign law and not operating a business in Thailand are exempted from income tax on the following assessable incomes:

- (i) interest received from government agencies bonds,
- (ii) the difference between the redemption price and selling price of government agency bonds issued and sold the first time at a price lower than the redemption price (discount), and
- (iii) benefits received from the transfer of government agency bonds (capital gains).

However, the withholding tax exemptions on income and capital gains from government securities trading were revoked, effective 13 October 2010, in line with other capital control measures. Nevertheless, the withdrawal of previous exemptions should not affect specific provisions for preferential tax treatment in prevailing DTAs. Investors are encouraged to seek the advice of professional tax advisors with regard to their specific tax situation.