FOREIGN INVESTMENT: FOCUS-REGIONAL OPERATING HEADQUARTERS IN SOUTHEAST ASIA

A Regional Operating Headquarters (ROH) is a company incorporated in one country for the purpose of providing qualifying services (managerial, administrative, technical or otherwise) to associated companies or branches located elsewhere in the world.

The most attractive countries to base an ROH in Southeast Asia are Singapore and Thailand, while ROH schemes can also be found in Malaysia and the Philippines. Each country provides its own unique package of qualification-based incentives, and the subtle but substantive differences between those packages can have a significant impact on a company’s bottom line.

As nations prepare for the ASEAN Economic Community set to debut at the end of 2015, ROH schemes provide a framework for regionally integrated investment through the facilitation of commerce across borders. The relevant multi-dimensional regional cooperation is reflected in the criteria applied in Thailand for ROH qualification, as an eligible company must have associations or branches in at least three other countries (preferably ASEAN) generating no less than 50 percent of annual revenue in order to qualify for certain ROH incentives. A nation that hosts regional operating headquarters for business on all scales will invariably retain a comparative advantage both regionally and globally, due to the commerce and revenue generated, while remaining an attractive location to the inevitable expansion of new business in Southeast Asia. Governments, especially in Thailand, are aware of this, and are utilizing the ROH program structure to capitalize on opportunities for foreign investment accordingly.

Why Base an ROH in Thailand?

Although Singapore is currently the most popular ROH hub in Southeast Asia, Thailand has been gaining considerable notoriety as the preferred destination for multinational companies since rolling out new incentives to its ROH program in 2010 and moving up to 18th in the World Bank’s “Ease of Doing Business” country list (Switzerland ranks 28th). Initially launched in 2002, the attractive new 2010 ROH package is designed to supercharge the popularity of the program; making Thailand’s ROH scheme arguably the most generous in the entire region.

Among the incentives granted to qualifying companies that establish a regional operating headquarters in Thailand is a 10-year corporate tax holiday on revenue generated from overseas operations with a possible 5-year extension; equating to 0% taxes over the first 15 years. A tax rate of just 10% is applied to all domestic operations within the same timeframe. In addition, if more than half of the company’s total revenue is earned overseas, ROH expatriate employees enjoy a flat tax rate of 15% on personal income for the first 8 years instead of the progressive 5-37% rate levied outside of the ROH system. Finally, Thailand offers tax exemptions for dividends received by the ROH from its associated companies abroad and for dividends paid out of the ROH’s net profits to its companies abroad that are not doing business in Thailand. Both are unique ROH features in Southeast Asia. Again though, qualifying for such in-
Financial incentives of the ROH program aside, Thailand’s other notable features also make it extremely attractive for a regional operating headquarters. It is a centrally located hub for production and regional outsourcing that provides a solid economic foundation upon which to build and expand a business. Expatriates living and working in Thailand also enjoy a comparatively low cost, but high quality, standard of living, and can take advantage of an expansive network of business and transportation infrastructure. These are just a few of the qualitative considerations when comparing ROH’s in Southeast Asia that, combined with the expanded list of quantitative monetary enticements, make Thailand’s ROH program arguably the most attractive in the region.

Audray Souche
Matthew Christensen
Audray.Souche@dfdl.com