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Thailand's Revenue Department Launches a Foreign Tax Credit Tool for Individuals with Foreign Income

I. Introduction

The Thai Revenue Department has launched a tool to help calculate foreign tax credits for income derived from foreign sources, specifically for personal income tax purposes. Due to the increase in cross-border employment and investment in Thailand, individuals residing in Thailand are required by the law to include foreign-source income in their Thai personal income tax returns.

However, there might be double taxation between Thailand and the foreign country, which could result in lower taxes in both countries. To avoid such a burden, Thailand abides by a Double Taxation Agreement ("**DTA**") with 61 other countries. Therefore, Thailand retains the right to tax income that was already taxed in the source country. This is done by calculating an individual's total income, including income from abroad that was already taxed in another country. This procedure grants foreign tax credits ("**FTC**") to Thai residents, allowing income tax paid in other countries to be credited against income tax payable in Thailand.

The "Foreign Tax Credit Calculation Tool" for Taxpayers with foreign-sourced income, which is intended to help taxpayers calculate their tax liabilities, reduce errors when filing tax returns, and boost confidence when exercising tax credit rights. It is useful for both Thai and foreign taxpayers who earn income from foreign sources, as well as for tax advisors and officials involved in filing personal income tax returns.

II. Way Forward

First, the individual must be considered a Thai resident under domestic tax law. This means the taxpayer must reside in Thailand for a single period or multiple periods totalling at least 180 days in the relevant tax year (calendar year). In this case, the individual is liable for Thai income tax on income derived from foreign sources when such income is remitted to Thailand. Furthermore, if the income is remitted in the same year the individual qualifies as a Thai resident, it must be included in the computation of Thai personal income tax for the year the income is remitted.

Secondly, taxpayers who derive income from a country that is a contracting party to the DTA may be eligible to claim an FTC

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against the income tax calculated in Thailand. However, the amount of the credit cannot exceed the amount of Thai tax calculated on that portion of the income (credit limit), and it cannot include any penalties or surcharges paid in the foreign country. Conversely, if no DTA exists, the FTC cannot be claimed for foreign-sourced income.

Prior to claiming an FTC, the following documents must be submitted to tax officials:

- Supporting documentation for the calculation of the foreign tax credit in respect of foreign-sourced income;
- Evidence of payment of tax in the foreign jurisdiction; and
- Evidence of remittance of such income into Thailand (e.g., bank transfer slips or bank statements).

The key operational rule for calculating income tax credit using the ordinary credit method is that the FTC must be carried out separately by source country and type of income. The allowable amount must not exceed the credit limit, since any excess amount cannot be carried forward to subsequent tax years. To convert foreign currency to THB for calculation purposes, use the exchange rate on the date the income is remitted to Thailand or the reference exchange rate published by the Bank of Thailand at the end of the day in question.

III. FTC Calculation Tool Overview

The first part of the tool, taxpayers shall provide details of income earned abroad and foreign tax paid. It is provided on the website for data entry in columns from (A) to (F);

(A) The year the income was earned for which the FTC is claimed;
(B) The source country, selected from the tool's predefined list;
(C) Type of income under the Revenue Code. This must be entered separately if multiple sources of income exist;
(D) Total foreign income converted into THB using the exchange rate on the date the income was remitted to Thailand.
(E) Foreign tax paid; and
(F) Specify the amount of foreign income remitted to Thailand.

Upon completion of items from (A) to (F), the tool will automatically calculate the portion of the foreign tax attributable according to the remitted foreign and domestic income of the taxpayer, including the percentage of foreign income remitted into Thailand.

In part two, it determines the amount of tax payable in Thailand and prepares the data for FTC calculations particularly;

(I) Foreign assessable income remitted into Thailand which is automatically calculated in item (F);
(J) Domestic assessable income earned in Thailand before the deduction of expenses and allowances;
(K) Total assessable income from all sources (gross income) which is automatically calculated from all sources under items (I) and (J); and
(L) Thai tax payable calculated from total assessable income (K) after deducting allowable expenses and allowances.

Thirdly, the final stage of the FTC calculation tool automatically performs the calculation using the following information from the two prior parts;

(M) Country;

(N) Foreign income remitted to Thailand;

(O) Foreign tax attributed to the remitted income;

(P) Calculated FTC limit; and

(Q) Allowable FTC under Thai law.

IV. Outlook

Nevertheless, the digital tools provided by the Thai Revenue Department to taxpayers are intended only to support their calculations. However, complex transactions and interconnections across borders may result in taxpayers encountering practical difficulties in the application process, since it is based on justifiable evidence and documents that tax officials adhere to in order to ensure compliance with applicable legal principles.

Our Tax Services

Should you have any questions regarding foreign-source income for your Thai personal income tax returns, please do not hesitate to contact us by email at thailand@luther-services.com or by telephone at +66 2 210 0036.

We are also happy to assist with corporate compliance matters, including company formation and restructuring, company secretarial services, accounting and payroll coordination, as well as general corporate and tax advisory services.

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