

Locating in Southeast Asia: Weighing up the headquarter options

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A shift in incentives



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Recent years have seen a shift in the nature and application of the incentives for companies relocating their headquarters to Singapore, Thailand and Malaysia as their governments look to attract key value-adding functions, as well as the executive ‘top brass’. What kind of incentives are on offer in each country, how do they compare and how can your business benefit?

As growth in output and demand in Southeast Asia continue to accelerate, where to base your business and locate key functions (eg marketing or R&D) within the region is high on the corporate agenda. The major commercial centres within Southeast Asia, including Singapore, Bangkok and Kuala Lumpur are also an increasingly popular base for wider international and global operations. Looking at the East Asia region as a whole, the broad and well-contested choice includes Hong Kong and China's major commercial centres.

Key considerations include access to talent, language, employment costs, infrastructure development, regulatory environment and proximity to markets targeted for growth. While favourable tax arrangements are only an attraction if all these other criteria are satisfied, the business benefits will always be an important part of the location choice.

Singapore is the long-standing gateway to Southeast Asia, and Asia more generally. General Motors International (GMI) recently relocated its headquarters (covers Africa as well as Asia) to the city state, joining a number of leading corporations already in place. GMI functions in Singapore include finance, marketing and product planning.¹ From within Asia, Panasonic has made Singapore the base for Asia-wide procurement and logistics² and Mitsui Chemicals has relocated a range of functions including energy trading.³

Although Thailand is home to fewer big names than Singapore, the government is keen to attract more corporate headquarters. It's a key part of the country's economic development strategy. Best Western, the world's biggest hotel chain, is one of the global giants directing its Asian operations from Bangkok.⁴

Malaysia recently introduced its ‘Principal Hub’ programme, which aims to bring corporations, suppliers and customers together. As an example, the government wants to foster ties between content and hardware suppliers within the media and technology industries. And a number of leading US and Japanese technology companies have expressed interest in being part of the programme.

1. [General Motors Company website](#)
2. [Panasonic Corporation news](#)
3. [Mitsui&Co website](#)
4. [Best Western International website](#)

Evolving benefits

So how are governments seeking to encourage businesses to locate to their shores? The packages have evolved from what we describe as an initial level one to a more ambitious level two package. We are now even seeing the emergence of a level three package, reflecting competition in this arena.

In Singapore, level one encouraged corporations to locate their regional headquarters within the country and use it as a base for reaching new markets. Examples included Singapore's approved headquarters scheme, which offered a 10% rate of tax on fees generated by 'associated companies' in the region.

As regional economies have grown and become more sophisticated, the more ambitious level two packages are designed to attract global as well as regional HQs. The scope of the incentives and the associated qualifying criteria have also broadened as governments seek to attract international service functions (eg procurement and financial reporting) and value drivers with the enterprise (eg product development). The overall aim is to bring in more high quality employment and income generation.

In Singapore, these evolving priorities are reflected in the development of the regional headquarters (RHQ) and international headquarters (IHQ) programmes and the recent discarding of the old 'approved headquarters scheme'. Like the approved headquarters scheme, the 'entry level' RHQ has fairly tight qualifying criteria covering such areas as paid-up capital and the number of affiliate companies managed out of Singapore. The tax on qualifying income is 15% in the introductory years, just below the headline 17% rate. By contrast, the scope of the IHQ is more flexible than the approved headquarters programme and the potential benefits are

greater. However, the level of incentive depends on the extent of the investment and operations the corporation is prepared to bring to Singapore above and beyond those required under the RHQ.

The IHQ would typically be woven into a range of incentives offered by the administering Economic Development Board (EDB), which could include grants, investment allowances and reduced tax rates or exemptions on mainstream business profits as well as on those from regional management functions. However, one of the EDB's key stipulations is that the details of the negotiated deal remain confidential to avoid creating precedents for other corporations. While nothing is certain, our experience suggests that a target IHQ package is likely to involve concessionary tax rates for HQ service fee income, an embedded finance and treasury centre with withholding tax exemptions, and a concessionary rate of tax on business income that is channelled through Singapore. After a number of years (generally ten), the favourable terms run out.

Determined move from Malaysia

Malaysia has emerged as a strong contender following its launch of the 'Principal Hub' programme.

Following major investment in infrastructure, the programme forms part of the government's ambition to create a network of mutually supporting supplier relationships within the country.

Companies are taxed in three tiers of 0%, 5% or 10% depending on the level of investment and jobs they bring in to the country. They can also benefit from custom-free import of raw materials and components for production, along with finished goods for repackaging and export. The scheme runs for an initial five years, with a possible five-year extension after that.

Like Singapore, qualifying companies need to include senior management positions (paying at least RM 25,000 per month) and create technical, professional and other high-value jobs (paying at least RM 5,000 per month). They also need to operate at least three qualifying services, of which at least one should be a strategic service such as business planning, brand management or corporate finance.

While Singapore's primary focus is cutting edge, low labour-intensive industries, Malaysia's targets are broader and the qualifying criteria are likely to be less rigid as a result.

Thailand in the frame

Thailand is also continuing to update its headquarters programmes. Like Singapore, these schemes come with qualifying criteria on the amount of capital held, affiliates administered and support services provided. Companies must spend at least 15 million baht in operating expenses in each accounting period as part of the commitment to generating employment and wealth in the country. The IHQ must also provide management, technical, support or financial management services for the company.

The first big difference is that income from Thailand as well as foreign affiliates can qualify for the tax exemption (initial 10%). The tax benefits for relocating corporations also extend to their staff through a flat 15% rate for the first four years. That's much lower than the headline rate.

Initiatives designed to augment the HQ programmes include the International Trading Centre (ITC), under which the profits from the purchase or sale of goods to or from non-resident affiliates that do not enter Thailand will be exempt from tax (previously 15%).

Like Singapore, there is a ten year sunset clause, though this can be extended to 15 years if the company has invested enough money in Thailand.

The sting in the tail had been that if you fail to meet any of the conditions over the course of the programme you would have to hand over the tax savings you made from day one, along with late payment penalties. This has now been relaxed as part of the newly introduced level three package, in which companies that breach the criteria only lose the incentives for that particular year, rather than the full ten-year programme as before. Further changes from the current programme include more efficient repatriation for foreign dividends.

Hong Kong always a consideration

Hong Kong offers none of the incentives of its Southeast Asian compatriots. But its location at the gateway to China, common law legal system and competitive basic tax rate (16.5% profits tax) will always be attractive. Tax is administered on a pure territorial basis.

Decisions, decisions

So which is the best bet? Clearly business factors are paramount. Areas such as stability, size of the country and relative development are all going to come into play. Singapore is of course more established and through its great port is better connected. Thailand is at the apex of the fast growing Greater Mekong, a highly interconnected sub-region with a population greater than the United States.⁵ Malaysia's size and improving infrastructure would make it attractive to a broad range of manufacturing as well as high-tech enterprises.

Government incentives are really just the icing on this business cake, as valuable as they can be and as keenly contested as they are. What is clear is that the biggest benefits will go to those corporations who are prepared to invest the most in their new locations. In Singapore, negotiations are a vital part of this give and take, though Thailand and Malaysia are also following this 'incentives in return for high quality jobs' approach. This approach reinforces the importance of looking at tax efficiency in the wider context of business development and commercial opportunity.

How can Grant Thornton help

Please speak to your usual Grant Thornton contact, [local member firm](#) or one of those listed if you have any questions on the contents included in this article.

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5. Asia Development Bank website, 31 January 2014. From the Greater Mekong's core in Thailand and Vietnam, significant investment in infrastructure is helping to spread industrial development and connectivity into Myanmar, Cambodia and Laos.



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