

## Financial Planning for Teachers

### *Part Two: Reducing tax liability*

*I am indebted to my father for living, but to my teacher for living well*

— Alexander the Great

Like many western equivalents, Thai tax brackets work like filling buckets – once you reach the maximum of the bottom bracket, you move onto the second bracket and so on.

Thus, if we take the example of our fictitious teacher Chris Smith: let's imagine he now earns THB 2 million a year he would be liable to pay THB 364,000 annual tax.

Income (Baht)	Tax Rate	Amount of Tax	Accumulated Tax
0 – 150K	0%	Zero	0
150K – 300K	5%	7500 Baht	7500 Baht
300 K – 500K	10%	20,000 Baht	27,000 Baht
500K – 750K	15%	37,500 Baht	64,500 Baht
750K – 1M	20%	50,000 Baht	114,000 Baht
1M– 2M	25%	250,000 Baht	364,000 Baht
<b>Total Income = 2m Baht</b>	<b>18.2%</b>	-	<b>364,000 Baht</b>

However, certain personal circumstances are tax deductible:

- Everyone has a personal tax allowance of THB 30,000
- Everyone also has an expenses deduction of Baht 60,000 for employment income.
- A child allowance of THB 15,000 per child – plus THB 2,000 if the child is studying in Thailand
- A spouse allowance of THB 30,000, if your spouse doesn't have an income or files a joint tax return. However if you stay in Thailand less than 180 days in a calendar year, you can only deduct the spouse allowance if your spouse stays in Thailand.

Contributing to a Thai life insurance plan entitles you to an allowance of up to THB 100,000. Not only that, but investing in an LTF or an RMF gives you an allowance of up to THB 500,000 or 15% of your annual salary (whichever is the least).

Some of the terms and conditions that apply to LTFs and RMFs are as follows:

#### LTFs

- There is no requirement to invest every year
- You receive tax benefit only for the years you invest.
- Redemption is done on first-in-first-out basis
- Each investment lot must be locked in LTF at least 5 calendar years. (Switching among LTFs is permitted)
- There is no capital gains tax from redemption if the redeemed investment lot has been in LTF for at least 5 calendar years (any partial year counts as 1 year).

#### *But...*

*If you redeem before 5 calendar years...*

- You have to return LTF's tax benefits received from redemption lots
- Pay for any capital gained
  - 3% withholding tax of capital
  - income tax
- Pay a surcharge of 1.5% per month of tax benefits received

#### RMFs

*No capital gains tax is payable at time of redemption if...*

- Invest in RMFs at least once a year until you are 55 years old and hold the investment units beyond the fifth anniversary (if you invested before 1<sup>st</sup> March 2008, there was no age restriction)
- Minimum investment per year is 3% of your annual income or THB 5,000 (whichever is lower)

#### *But...*

*If you withhold investment for 2 consecutive years before 55 years old...*

- You must return RMF's tax benefits received over the past 5 years

*If you invest in an RMF lower than 3% of annual income or less than THB 5,000*

- Any capital gained on redemption is subject to income tax

*If you redeem units before the 5-year holding period or before 55 years old*

- In case of late tax filing, pay surcharge 1.5% per month of received tax benefits.

Be aware that investment in mutual funds contains certain risk, please carefully study the prospectus and tax manual including testing your suitability before investing.

So if Chris Smith has a wife of Thai nationality, two children studying in Thailand and decides to save his maximum possible in an LTF (15% of his annual salary = 300,000 Baht). His assessable income tax is reduced to THB 1,546,000 and his annual tax bill will now be THB 250,500 – a saving of THB 113,500.

Income (Baht)	Tax Rate	Amount of Tax	Accumulated Tax
0 – 150K	0%	Zero	0
150K – 300K	5%	7500 Baht	7500 Baht
300 K – 500K	10%	20,000 Baht	27,000 Baht
500K – 750K	15%	37,500 Baht	64,500 Baht
750K – 1M	20%	50,000 Baht	114,000 Baht
1M – 1,546,000	25%	136,500 Baht	250,500Baht
<b>Total Income = 2m Baht</b>	<b>12.5%</b>	-	<b>250,500 Baht</b>

Of course this is just an example. Many international schools calculate the tax for you, but to have an idea of the actual tax you should be paying, it's best to ask an independent expert.

For further information contact us by e-mail on [info@mbmg-investment.com](mailto:info@mbmg-investment.com) or call +66 2 665 2536.

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