Act quickly to get maximum benefit from RMFs of LTFs

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If you are earning a Thai Baht salary, Retirement Mutual Funds (RMFs) and Long-Term Equity Funds (LTFs), represent an opportunity for sizeable tax savings – but you may have to act quickly.

What are they?

The idea behind a mutual fund is that numerous people contributing to the pot is that it is a lot easier to invest than buying and selling individual stocks and bonds on your own.

A retirement mutual fund (RMF) is a pool of money put together by several investors with the idea of providing a long-term savings plan for when they retire. Investors are obliged to stay in the fund until they are 55 years old, as they are designed to be a retirement planning instrument.

Long-term equity funds (LTFs) are similar. The difference is that they offer more flexibility, as they have no age restriction. That said, they do have a holding period of five calendar years before any redemption can be made. The *calendar* part is crucial. It means you can actually be in the fund for as little as 3 years and 2 days, as the duration must occupy five different consecutive calendar years. However, this will change: as of 1st January 2016 the minimum holding period before redemption will become seven calendar years[1] - thus a minimum of five years and 2 days.

To encourage investment into Thai markets, the Thai government sought to offer tax incentives to invest into Retirement Mutual Funds and Long-Term Equity Funds. In a nutshell, the amount that you invest in RMFs and LTFs can be deducted from your annual taxable income, reducing your income tax.

LTFs and RMFs invest into Thai equities markets, which have performed equally as well as the world's major stock markets in recent times (see charts). The main stock market, the SET, has consistently been a reliable performer. It rebounded strongly from the impact of the Global Financial Crisis, the terrible flooding in 2011 and the political crisis in late 2013 and early 2014 (see chart).

[1] http://www.reuters.com/article/2015/11/03/thailandequity-funds-tax-extension-idUSL3N12Y2F620151103

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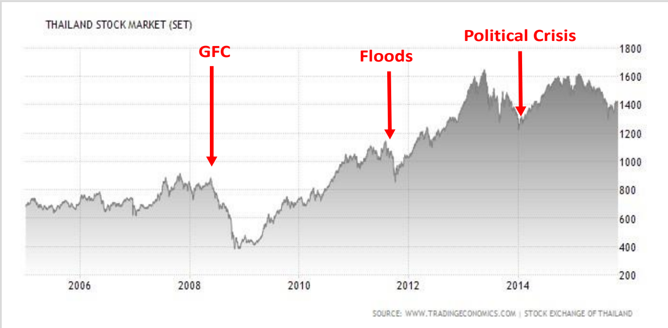
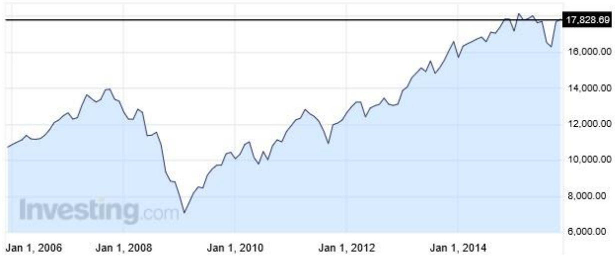


Euronext last 10 years

Sources: Investing.com & Euronext

Dow Jones Industrial Average index last 10 years



Sources: Investing.com

Tax benefits

However, the return on investment is not only the performance of the investment itself but also on the tax savings for which the fund qualifies.

To qualify for tax benefits through and RMF, a minimum yearly investment is required of 3% of your annual income or THB 5,000 (whichever is higher).

LTFs have a maximum yearly investment ceiling of 15% of your annual income, not exceeding THB 500,000. The same limits apply for an RMF, provident fund and state pension collectively. The example below is illustrated on an annual net income of THB 5 million per annum. If, from that income, THB 1 million per annum is invested in an LTF and RMF, the tax saving of THB 350,000.

Taxable Net Income	Tax Rate (%)	Tax Payable	Accumulated Tax	Accumulated Tax After LTF/RMF Investment
1 - 150,000	Zero	Zero	Zero	Zero
150,001 - 300,000	5%	7,500	7,500	7,500
301,000 – 500,000	10%	20,000	27,500	27,500
500,001 – 750,000	15%	37,500	65,000	65,000
750,001 – 1,000,000	20%	50,000	115,000	115,000
1,000,001 – 2,000,000	25%	250,000	365,000	365,000
2,000,001 - 4,000,000	30%	600,000	965,000	965,000
4,000,001 +	35%	350,000*	1,315,000	965,000

** = per THB 1 million above a net income of THB 4 million*

Source: MBMG Investment Advisory

Thus, by investing THB 1 million split between an LTF and an RMF, you can reduce your assessable income from THB 5m to THB 4m. This is a saving of 35% on the THB 1 million of income at the top of the tax spectrum. Furthermore, any gains that the LTF/RMF make are not subject to Capital Gains Tax as long as no terms and or conditions are broken.

Time running out

Whilst these instruments could be an interesting opportunity to both invest in your future and receive tax benefits, their future is in the balance.

Although tax-reform plans (announced in mid-2014 and due to be implemented in 2016) initially looked like putting an end to tax breaks for LTFs,[2] the Ministry of Finance has just announced a three-year extension to the scheme. A government official stated that the Ministry "acknowledged the severely negative effect on the stock market that might occur if it let the privileges expire in 2016, as a huge portion of investors are invested in LTFs to tap tax benefits."[3]

So if you want to invest an LTF with a shorter lock-in period, you'll have to invest before the current system expires at the end of the year.

It's important to note that, like all other investment products, RMFs and LTFs do not suit everyone. After all, when we invest we all have different objectives, priorities and levels of risk we're prepared to take. There are many deductible allowances in addition to RMFs and LTFs, so it's worth exploring the possibilities. That's why it's important to ask an independent regulated advisor before making a decision.

For further information, please contact us by e-mail on info@mbmg-investment.com or call +66 2 665 2536.

Paul Gambles has completed CFA level 1 and is licensed by the SEC as both a Securities Fundamental Investment Analyst and an Investment Planner.

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[2] http://www.bangkokpost.com/archive/ltf-rmf-allowances-to-go/416051

[3] http://www.bangkokpost.com/business/finance/752276/ltf-privileges-get-3-year-extension

2. Please ensure you understand the nature of the products, return conditions and risks before making any investment decision.

3. An investment is not a deposit, it carries investment risk. Investors are encouraged to make an investment only when investing in such an asset corresponds with their own objectives and only after they have acknowledge all risks and have been informed that the return may be more or less than the initial sum.