Thai RMFs & LTFs could prove to be a sound investment

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If you're earning a Thai Baht salary, Retirement Mutual Funds (RMFs) and Long-Term Equity Funds (LTFs), can represent an opportunity for sizeable tax savings.

A retirement mutual fund (RMF) is an investment into a Thai-authorized retirement fund, with the intention of providing long-term savings for life after work. RMFs comprise of several different types of investment fund. For example, they could contain shares in specific countries and/or sectors; real estate investment trusts (REITs); government or corporate bonds etc. Investors are obliged to stay in the fund until they reach the age of 55, as they are designed to be a retirement planning instrument. Early withdrawal or failure to satisfy the ongoing contribution rules can result in adverse taxation consequences.

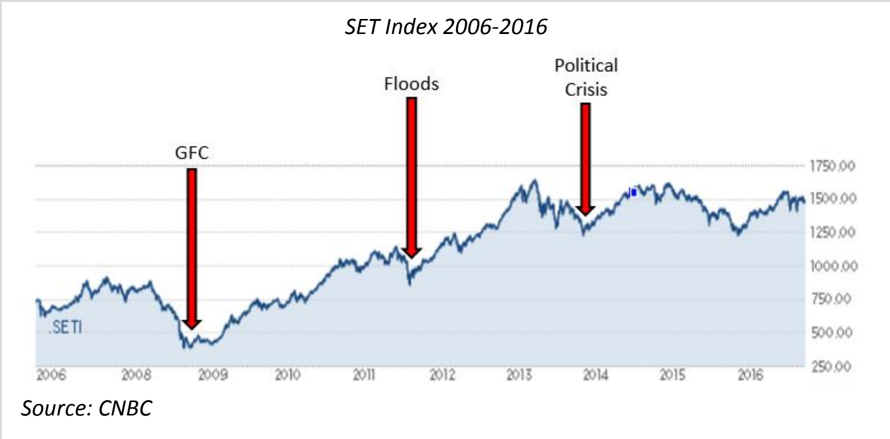
Long-term equity funds (LTFs) have no age restriction, but, as of 1st January 2016, have a required holding period of seven calendar years before any redemption can be made. The *calendar* part is crucial. It means you can actually be in the fund for as little as 5 years and 2 days, as the duration must occupy five different consecutive calendar years.[1] If you invested in an LTF in 2015 or before, the minimum period for those investments remains unchanged at 5 calendar years, which was the regulation at the time.

Unlike a specified goal, such as retirement, LTFs are designed to encourage long-term investment in Thai markets. The Thai government offers tax incentives to investors into Retirement Mutual Funds and Long-Term Equity Funds. In general, the amount that you invest in RMFs and LTFs can be deducted from your annual taxable income, reducing your income tax.

Whereas the range RMFs might cover can be multiple asset classes and access to global markets, LTFs invest primarily into Thai equities markets, which have performed equally as well as the world's major stock markets in recent times[2] (for charts, request a copy of our Research Note here). The main stock market, the SET, has 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; although that is no indication of its direction going forwards (see chart).

[1] Ministerial Regulation No. 317 (BE 2559)

[2] Compared with S&P 500 and MSCI World indices, for example



The best RMFs or LTFs are the ones which suit your needs the most. That depends on your intended investment period. In the case of RMFs, you should consider the most suitable asset class allocation, geographical split and currency implications. With LTFs, it's more about each provider's investment style and also for instance whether to choose a 100% equity LTF or a 75% equity/25% bond fund. One of our SEC-licensed advisers will be able to suggest possible RMFs or LTFs which fit your needs.

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 an RMF, a minimum yearly investment is required of 3% of your annual income or THB 5,000 (whichever is higher).

Each payment must be made within 12 months of the previous payment; so, buying in Feb 2015 and then Nov 2016 would break the rule. Breaking the rule means that a saver should reduce all payments to the minimum THB 5,000 until the end of the 5-year term. Then before the end of March in year 6, he/she must admit to the error made and return the tax saving on earlier payments and a 1.5% per month fine on that saving, from the start of the first year. You will also have to pay personal income tax on any capital gain arising from the sale (not Capital Gains Tax). No dividend or money of any kind from the RMF can be received during the holding period. You can only receive benefits or return from the RMF upon redemption of the investment units and can't take out a loan or withdraw money from the RMF.[3]

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. If from an annual net income of THB 6 million per annum, THB 1 million per annum is invested in an LTF and RMF, the tax saving would be THB 349,500 (for a complete breakdown, request a copy of our Research Note here).

Consequently, depending on your personal goals, RMFs and/or LTFs could be a smart way to invest.

[3] http://www.rd.go.th/publish/fileadmin/download/english_form/Guide94_ENG_120959.pdf

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