

ETF taxation report for investors

Thailand

July 2020

Commissioned by:

HKEX

香港交易所



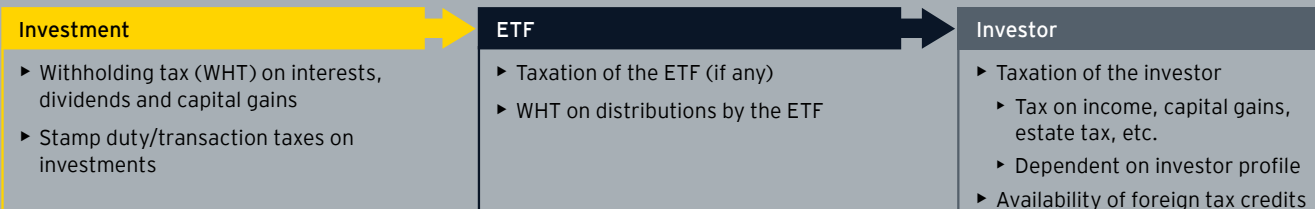
Introduction

Exchange Traded Funds (ETFs) continue to gain popularity by investors as an efficient mechanism to gain a broad array of desired market access. Whilst return on investment (ROI) is a key priority, costs play an important role in maximizing ROI. One significant yet lesser understood cost with investing in ETFs is taxation. This is especially true for any cross-border investment which are normally subject to multiple instances of taxation.

In this Report we will examine the impact of different types of ETFs on Thailand based investor returns across key markets, ETF types and domiciles.

Multiple instances of taxation on ETFs

An investor's ETF returns can generally be subject to tax at three levels:



The extent of tax costs will vary widely depending on:

- 1 Domicile of the investor
- 2 Domicile and type of ETF*
- 3 Jurisdiction of the underlying portfolio investments

*Especially important because this should have an impact on the following:

- ▶ The applicable WHT rate at both the investment and investor levels
- ▶ The applicable taxes at the ETF level
- ▶ Access to any available tax treaty benefits

Types of ETFs compared

Common forms of ETFs compared in this Report include the following:

- ▶ Hong Kong ETF is a Hong Kong unit trust authorized by the Securities and Futures Commission of Hong Kong.
- ▶ The Irish ETF is an Irish Collective Asset-management Vehicle (ICAV) authorized as an Undertaking for Collective Investment in Transferable Securities (UCITS).
- ▶ Luxembourg ETF is a capital company constituted as a Société d'Investissement à Capital Variable (SICAV)/Société d'Investissement à Capital Fixe (SICAF).
- ▶ US ETF is a Regulated Investment Company and satisfies specific requirements.
- ▶ Thailand ETF is a mutual fund established as a juristic person under Thailand law which is classified as a company or juristic partnership subject to Thailand corporate income tax.

General basis of preparation

1. General in nature.
2. Does not include any transfer taxes such as stamp duty.
3. Considers only income tax/WHT effect on dividend and interest income received by the ETFs, and excludes capital gains tax or tax on trading profits/losses.
4. Distribution from the ETFs are considered to be normal dividend and/or distribution (practically subject to local variances).
5. All investors are institutional corporate investors and tax residents in their domicile location(s) and subject to standard corporate income tax rate. Individual circumstances have not been considered.
6. To the extent domestic unilateral tax credit is available and considered, it is assumed that the necessary criteria are satisfied and the available tax credit would be within the prescribed limit.
7. Some jurisdictions may have regulatory restrictions on cross-border investments. Investors should seek separate legal and regulatory advice in this regard as this Report focuses solely on the potential tax implications of investing into different types of ETFs.

Application of reduced tax treaty rates

1. We have assumed the following minimum conditions for tax treaty eligibility are met:
 - ▶ ETFs are assumed to be the tax residents in their domicile and are able to obtain certificates of residence from their local tax authorities**.
 - ▶ ETFs are assumed to be regarded as beneficial owner of the income.
 - ▶ ETFs are assumed to hold less than 5% of the total share capital of a single investment.
2. Ultimately, the ability to claim tax treaty benefits by ETFs and investors depends on each of their individual facts and circumstances in meeting the prescribed conditions under the relevant tax treaty provisions or domestic laws for domestic relief (if any). This is also subject to the practices of ETF sponsors and withholding agents and the local tax authorities in each jurisdiction. Each investor should consult its own tax advisor regarding the specific requirements to qualify for tax treaty benefits under the relevant tax treaties.

**Thailand ETF may have practical challenges in obtaining a certificate of residence from local tax authorities. (With effect from 20 August 2019, a Thailand ETF is considered as a taxable person and hence, may be eligible to avail beneficial tax treatment under tax treaties entered by Thailand and the jurisdictions of source investments, but this is currently new and practically untested.)

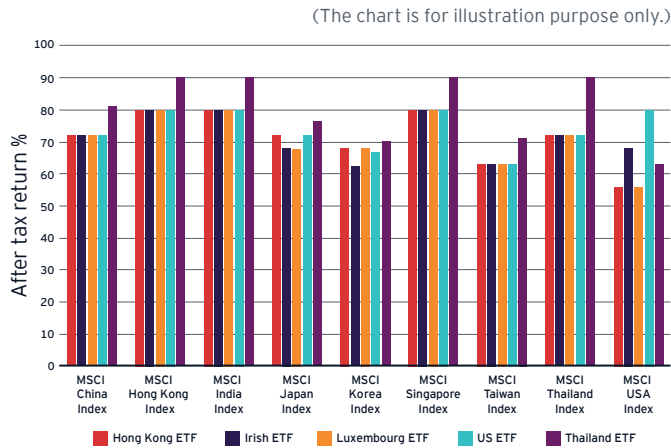
Other jurisdiction-specific assumptions

1. The Irish ETF principal class of shares is substantially and regularly traded on a recognized stock exchange.
2. All US-source dividends are considered ordinary dividends for US federal income tax (US Tax) purposes.
3. All US-source government and corporate interest qualifies for the portfolio debt exemption under section 881(c) of the US Internal Revenue Code of 1986, as amended and currently in effect.

This Report is prepared for informational purposes and supported by the ETF Tax Calculator. For details of preparation basis as well as underlying assumptions, please visit <https://www.hkex.com.hk/ETFTaxCalculator>.

Thailand investor after tax returns compared

Figure 1. Single market equity indices***



In India, Finance Act, 2020 abolished dividend distribution tax and replaced it with a new regime where dividend will be taxed in the hands of the recipients from 1 April 2020. While the new regime is applicable from 1 April 2020, given this Report only takes into account tax changes until 31 December 2019, this change has not been reflected.

Figure 2. World/regional equity indices***

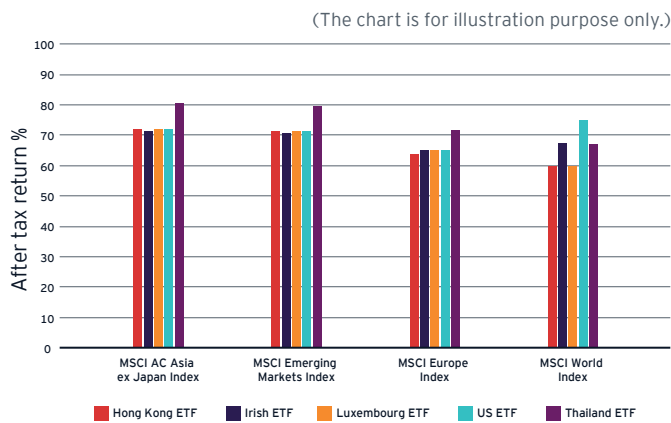
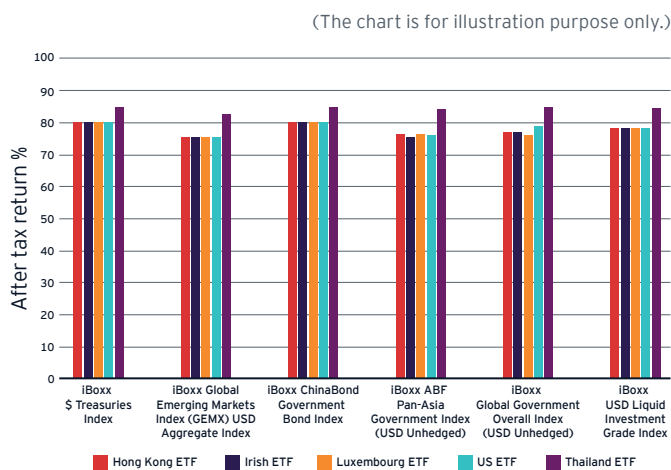


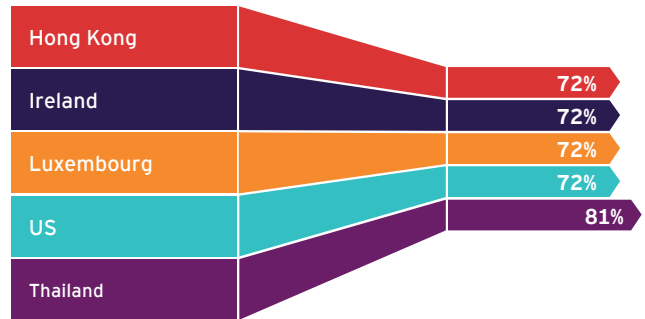
Figure 3. Fixed income indices***



*** This Report is prepared based on the index constituents data and the applicable tax rates as of 31 December 2019. The index constituents data is provided by MSCI and IHS Markit respectively. For MSCI indices, the jurisdiction classification is generally determined by the company's location of incorporation and the primary listing of its securities. For IHS Markit indices, the jurisdiction weight is based on the jurisdiction where the issuer is exposed to. EY and HKEX are not responsible for independently verifying or validating the source data.

Illustrative diagram for MSCI China Index (Figure 1)

For Thailand investors, by investing in MSCI China Index through a Thailand ETF, the after tax return from ETF distribution should be 81% of the ETF distribution before all level of taxes***, versus 72% using other popular overseas ETFs.



***This includes portfolio level, ETF level and investor level, and does not take into account any fees to intermediates.

Reduce total cost of ownership (TCO) with tax consideration

This Report provides evidence that significant differences can arise in after-tax returns for ETFs domiciled in different jurisdictions. However, tax should not be the only consideration in ETF selection. Investors should evaluate ETF investment costs in the context of the TCO, including but not limited to bid-ask spread, broker commissions, total expense ratio and taxation. For more details about TCO, please read the *ETF Total Cost of Ownership primer* in the HKEX ETF webpage.

Conclusion

Hong Kong domiciled ETFs have traditionally been recognized for their unique access to the domestic market of Mainland China. However, with the HKEX now carrying about 130 ETFs and Leveraged and Inverse Products representing a wide range of global products, investors now have an enhanced ability to use Hong Kong ETFs to achieve their desired market exposures.

Furthermore, Hong Kong's ETF market, as a regional issuing and trading hub of ETFs, is seeing deepening liquidity driven by a continuously enhancing market structure. This translates into narrower bid-ask spread and lower trading cost for investors seeking to gain exposure to Asia and beyond via Hong Kong ETFs.

Investors can also benefit from lower tracking difference, which is a component of TCO, by trading Asia underlyings in the Asian time zone with Hong Kong ETFs as they can react to events occurring in Asia more timely.

In conclusion, Hong Kong ETFs offer a tax-efficient, low-cost vehicle for investors to access a diverse range of asset classes and markets.

To learn more about Hong Kong ETFs, please visit the HKEX ETF webpage www.hkex.com.hk/etp.

To see the after tax returns comparison on more indices, please visit: <https://www.hkex.com.hk/ETFTaxCalculator>.

Contact EY



Elliott Shadforth

Wealth and Asset Management Leader
Ernst & Young,
Hong Kong

+852 2846 9083
elliott.shadforth@hk.ey.com



Rohit Narula

Partner, Financial Services Tax
Ernst & Young Tax Services Limited

+852 2629 3549
rohit.narula@hk.ey.com



Kasem Kiatsayrikul

Partner, Financial Services Tax
EY Corporate Services Limited

+66 2264 0777 ext. 77033
kasem.kiatsayrikul@th.ey.com



Ming Lam

Director, Financial Services Tax
Ernst & Young Tax Services Limited

+852 2849 9265
ming.lam@hk.ey.com



Chinumar Huk-han

Associate Director, Financial Services Tax
EY Corporate Services Limited

+66 2264 0777 ext. 21008
chinumar.huk-han@th.ey.com

Contact HKEX



Brian Roberts

Head of Exchange Traded Products,
Hong Kong Exchanges and Clearing Limited

+852 2840 3396
brianroberts@hkex.com.hk

HKEX Disclaimer

The information contained in this document is for general informational purposes only and does not constitute an offer, solicitation, invitation or recommendation to buy or sell any securities or other products or to provide any investment advice or service of any kind. This document is solely intended for distribution to and use by professional investors. This document is not directed at, and is not intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited ("SEHK") (together, the "Entities", each an "Entity"), or any of their affiliates, or any of the companies that they operate, to any registration requirement within such jurisdiction or country.

No section or clause in this document may be regarded as creating any obligation on the part of any of the Entities. Rights and obligations with regard to the trading, clearing and settlement of any securities effected on SEHK shall depend solely on the applicable rules of SEHK and the relevant clearing house, as well as the applicable laws, rules and regulations of Hong Kong.

The information contained in this document is produced by Ernst & Young Tax Services Limited, MSCI Limited and IHS Markit and neither of the Entities is responsible for the content or guarantees the accuracy, validity, timeliness or completeness of the information or data, and the Entities and the companies that they operate shall not accept any responsibility for, or be liable for, errors, omissions or other inaccuracies in the information or for the consequences thereof. The information set out in this document is provided on an "as is" and "as available" basis and may be amended or changed. It is not a substitute for professional advice which takes account of your specific circumstances and nothing in this document constitutes legal advice. Neither of the Entities shall be responsible or liable for any loss or damage, directly or indirectly, arising from the use of or reliance upon any information provided in this document.

Additional information for persons in Thailand

The information herein is provided to you solely at your request and is not intended to be solicitation or invitation for you to use any of our services or trade in any particular product.

MSCI Disclaimer

The MSCI information may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

EY | Assurance | Tax | Strategy and Transactions | Consulting

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation is available via ey.com/privacy. For more information about our organization, please visit ey.com.

© 2020 EYGM Limited.

All Rights Reserved.

APAC no. 03010607

BMC Agency
GA 1015818

ED None

ey.com

About HKEX

HKEX is one of the world's major exchange groups, and operates a range of equity, commodity, fixed income and currency markets. HKEX is the world's leading IPO market and as Hong Kong's only securities and derivatives exchange and sole operator of its clearing houses, it is uniquely placed to offer regional and international investors access to Asia's most vibrant markets.

HKEX launched the pioneering Shanghai-Hong Kong Stock Connect programme in 2014, further expanded with the launch of Shenzhen Connect in 2016, and the launch of Bond Connect in 2017.

There are about 130 ETFs and Leveraged & Inverse Products listed in Hong Kong, providing access to a range of asset classes, markets and strategies. As Asia's ETF marketplace, HKEX offers diverse, liquid and tax efficient product offerings during Asian trading hours.

www.hkex.com.hk/ETP

IHS Markit Disclaimer

This Report may contain proprietary information of IHS Markit or its affiliates and any unauthorized use, disclosure, reproduction, or dissemination, in full or in part, in any media or by any means is not permissible without IHS Markit's consent.

IHS Markit is a registered trademark of IHS Markit Ltd and/or its affiliates. Neither IHS Markit, its affiliates or any third party data provider makes any warranty, express or implied, as to the accuracy, completeness or timeliness of the data contained herewith nor as to the results to be obtained by recipients of the data. Neither IHS Markit, its affiliates nor any data provider shall in any way be liable to any recipient of the data for any inaccuracies, errors or omissions in the IHS Markit data, regardless of cause, or for any damages (whether direct or indirect) resulting therefrom. IHS Markit has no obligation to update, modify or amend the data or to otherwise notify a recipient thereof in the event that any matter stated herein changes or subsequently becomes inaccurate. Without limiting the foregoing, IHS Markit, its affiliates, or any third party data provider shall have no liability whatsoever to the recipient, whether in contract (including under an indemnity), in tort (including negligence), under a warranty, under statute or otherwise, in respect of any loss or damage suffered by recipient as a result of or in connection with any opinions, recommendations, forecasts, judgments, or any other conclusions, or any course of action determined, by recipient or any third party, whether or not based on the content, information or materials contained herein. Copyright © 2020 IHS Markit. All rights reserved.

EY Disclaimer

This Report has been prepared for general information purpose only and is not intended to be relied upon as legal, accounting, tax or other professional advice. Please refer to your advisors for specific advice. In preparation or updating of the information of this Report, EY has relied upon underlying data on a specific date (as indicated in this Report) and applicable prevailing tax regulations, interpretations and practices of the domicile of investors as at the time the information of this Report is being prepared and updated. Proposed and recently enacted changes or amendments in the relevant local tax regulations, interpretations and practices may not be timely captured and reflected in this Report. EY is not responsible for the accuracy, validity and completeness of other parties' data and the results produced by this Report.

No duty of care is owed by EY to any recipient of this Report in respect of any use that such recipient may make of this Report. No claim or demand or any actions or proceedings may be brought against EY arising from or connected with the contents of this Report or provision of this Report to any recipient. No reliance may be placed upon this Report or any of its contents by any recipient of this Report for any purpose. A recipient must make and rely on their own enquiries in relation to the issues to which this Report relates, the contents of this Report and all matters arising from or relating to or in any way connected with this Report or its contents.

EY makes no representations as to the appropriateness, accuracy or completeness of this Report for any recipient's purposes.