

■ TAX & CORPORATE RESTRUCTURING

Partial Business Transfer: What to Know Before Restructuring Within Your Group

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Understand the legal requirements that qualify a partial business transfer for exemption from Value Added Tax, Specific Business Tax, and Stamp Duty.

What is a Partial Business Transfer?

A Partial Business Transfer is a form of corporate restructuring in which a transferor conveys a specific business unit – rather than its entire enterprise – to a transferee. This mechanism is commonly employed within corporate groups seeking to realign their internal business

structures, improve operational efficiency, or pursue strategic objectives.

When conducted in accordance with the conditions prescribed by laws and regulations, such partial business transfer may qualify for exemption from the Value Added Tax (VAT), Specific Business Tax (SBT), and Stamp Duty.

Comparison: Partial Business Transfer vs. Entire Business Transfer

	PARTIAL BUSINESS TRANSFER (PBT)	ENTIRE BUSINESS TRANSFER (EBT)
NATURE OF TRANSFER	Transfer of specific business unit(s) only	Transfer of all assets and liabilities
STATUS AFTER TRANSFER	Continues to operate the remaining business	Dissolution of the company
TAXES EXEMPTED	Value Added Tax, Specific Business Tax, Stamp Duty	Corporate Income Tax, Specific Business Tax, Stamp Duty

Criteria for a Tax-Exempt Partial Business Transfer

To qualify for tax exemption, a partial business transfer must satisfy four key requirements:

- 01** The transfer must occur between companies within the same corporate group, and the affiliated relationship must be maintained for no less than six months from the end of the accounting period in which the transfer takes place.
- 02** As at the date of the transfer, the transferee must hold a Net Asset Value (NAV) no less than the net value of the assets being transferred.
- 03** The assets transferred must be directly related to the business unit being transferred – not disposed of in the ordinary course of business – and the transferee must employ them to carry on the same type of business.
- 04** The transfer must not be made without consideration, nor at a price below Market Value without reasonable justification at the date of transfer.

Asset Valuation

The Revenue Department defines “Market Value” as the price, service fee, or interest that independent parties would in good faith agree upon in a commercial transaction for the transfer of assets, provision of services, or lending of funds of the same character, type, and kind, as at the date of the transaction.

However, the Revenue Department has not issued detailed valuation methodologies or specific valuation standards, which raises a practical question as to how a transferor should value its assets in a manner that most accurately reflects their fair market value.

VALUATION APPROACHES

In practice, a transferor typically engages an Independent Appraiser. Commonly adopted valuation approaches include:

Book Value Approach	Adjusted Book Value Approach	Fair Value Approach
Market Approach	Income Approach / DCF	Cost Approach

An appraiser may apply more than one methodology to a given asset in order to arrive at the value that best reflects the market price at the date of transfer.

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