



RSM FOCUS

Welcome to issue 2 of RSM Focus – RSM Thailand's Monthly Newsletter covering taxation and technical issues that face expatriate corporate and personal investors seeking to do business in Thailand

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Differences between accounting and tax requirements for yearend closing

Introduction

Welcome to the second edition of RSM Focus. This edition features a topical article relating to the differences between accounting and tax requirements for yearend closing prepared by Vanida Traitodsaporn, Associate Audit Director.

Differences between accounting and tax requirements for yearend closing

Once again it is the time of year that many companies are closing their annual accounts. Several companies may achieve high profits from their operations and this is their last chance to complete their tax planning for the 2015 year end. This article considers the principal differences between the accounting and tax regulations in Thailand, particularly as regards those expenses which may be considered to be non-deductible or where additional deductions may be made for the computation of corporate income tax.

We summarise below regular expenses for which there are differences between the Thai Accounting Standards ("TAS") and the Revenue Code:

- 1) Any artificial or fictitious expenses which are incurred from a provision, allowance or estimation are dealt with as below:

ACCOUNTING		TAXATION	
TAS 2:	Loss for devaluation in inventory (increase in allowance for devaluation in inventory) is recorded as an expense.	Section 65 Ter:	Provision/allowance shall not be allowed as an expense in the calculation of net profits (loss) for the period unless they are paid/sold.
TAS 16:	Loss on impairment in property, plant and equipment is recorded as an expense.		However, in the period that an entity pays an expense which has been recorded as a provision; such payment is treated as a deductible expense in the computation of net profits (loss).
TAS 19:	Provision for severance payments under the Thai labour law is recorded as an expense.		
TAS 37:	Provision is recognised as an expense.		

- 2) Any damage recoverable under an insurance or contract of indemnity, or the net losses incurred in the preceding accounting period, except the net losses brought forward from an accounting period no more than five years preceding the current accounting period are dealt with as follows

ACCOUNTING		TAXATION	
TAS 16:	An entity recognizes the loss of a fixed asset and realises its net book value as a loss in the Statement of Income.	Section 65 Ter:	Damages claimable from insurance or other protection contracts shall not be allowed as expenses in the calculation of net profits. In a case where there is insurance to cover such a asset, the net book value of this asset shall not be recorded as an expense unless the claim is completed. The amount of deductible expense is the difference between the net book value and the claimed amount.
Thai GAAP:	There net losses were accumulated in an entity's operation results and included in its retained earnings (deficits).	Section 65 Ter:	Income tax losses carried forward for not over 5-years shall be allowed as an expense in the calculation of net profit (loss) for the period.

- 3) Wear and tear and depreciation of assets may be deducted in accordance with the rules, procedures, conditions and at the rates as prescribed by Royal Decree (see below):

ACCOUNTING		TAXATION	
TAS 16:	Depreciation rates of plant and equipment are in accordance with the expected useful economic lives of the assets concerned.	Royal Decree No.145:	Stipulates a minimum percentage for the computation of depreciation. The depreciation shall be computed on a daily basis.
	Depreciation shall be computed on cost of fixed assets net provision for impairment in the assets.		Depreciation shall be computed on historical cost.
	Cost of fixed assets under hire purchase agreement is at a cash sale price.		Cost of an asset acquired via a hire-purchase agreement shall be taken at the whole price payable. Therefore, the cost of a fixed asset under a hire purchase agreement is cash sale price plus total interest expense.

	Depreciation of assets acquired under a hire-purchase agreement are computed based on historical costs in accordance with TAS 16.		Depreciation of assets under a hire-purchase agreement should be computed based on cost per the Revenue Code, by a method recognized in accordance with TAS 16. The depreciation deductible shall not exceed the amount of the hire-purchase payment in the period.
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In addition, certain expenses are recognised in accordance with the Conceptual Framework for Financial Reporting as detailed below:

“Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the entity.”

Therefore, expenses recorded in an entity's accounts shall be supported with relevant documents and approved by an entity's authorized person.

However, in accordance with the Revenue Code, for the purposes of computing net profit (loss), none of the items shall be allowed as expenses or have conditions:

Section	Description
Section 65 Ter:	Tax expenses which shall not be allowed as an expense in the calculation of net profit (loss) are: <ul style="list-style-type: none"> - Input tax of an entity which is a VAT registrant - Such input tax VAT on entertainment or service fees - Fines and/or surcharges, criminal fines, income tax of an entity
Section 65 Ter:	Expenses for public charity or for public benefit as prescribed by the Director General of the Revenue Department with the approval of the Minister, shall be deductible in an amount not exceeding 2% of net profit. Expenses for education or sports prescribed by the Director General of the Revenue Department with the approval of the Minister shall also be deductible in an amount not exceeding 2% of net profit.
Royal Decree No.145:	For assets categorized as a passenger car or bus with no more than 10 passenger seats under the law governing excise tax, depreciation shall be calculated from cost that does not exceed Baht 1 million, except if the asset is used in the car rental business where depreciation shall be calculated on the total cost value.
Royal Decree No.315:	Rental cost of a passenger car or a bus with seats for no more than ten passengers under the law governing classification of

	excise tax rates, shall be allowed as an expense up to an amount not exceeding Baht 36,000 per month per car in the case of monthly or yearly rental, or not exceeding Baht 1,200 per day per car in the case of daily rental.
Ministerial Regulation No.143:	Expenses on entertainment or services are deductible in the amount actually expended but in total shall not exceed 0.3 percent of the amount of gross revenues or gross sales included in the computation of net profits for the accounting period, or of the amount of paid up capital as at the closing date of the accounting period, whichever is greater, provided that the expenses to be deducted shall not exceed 10 million Baht. The cost of gifts given to persons who are entertained or to whom services are rendered should not exceed 2,000 Baht per person on each occasion of entertainment or rendering of services.

In accordance with the Revenue Code certain expenses shall be deducted for the calculation of net profits (loss) for the period for an amount that is recorded in the accounts as below:

Royal Decree No.437:	Training expenses for employees shall be allowed as a deductible expense at 2 times the actual cost.
Promotional privileges under the Investment Promotion Act of each entity:	An entity may have some expenses such as water, electricity, etc. which shall be allowed as a deductible expense at 2 times the actual cost.

Currently, the Federation of Accounting Professionals (FAP) is developing Thai Financial Reporting Standards that are similar to International Financial Reporting Standards (IFRS). Accounting standard TAS 12 (revised 2014) "Income Taxes" is effective to annual periods beginning on or after 1 January 2015. The objective of this Standard is to prescribe the accounting treatment for income taxes. The principal accounting issues for income tax are how to account for the current and future tax consequences of the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognised in an entity's statement of financial position; and transactions and other events of the current period that are recognised in an entity's financial statements. This standard requires an entity to recognise a deferred tax liability and deferred tax assets both of which incurred from differences between accounting standards and taxation criteria which are composed of revenues, expenses, assets, liabilities and others, including consideration as to whether such difference is a permanent difference which effects the computation of taxable profit or temporary differences which effect the carrying amount in the statement of financial position until the cause of the difference will be cleared. The temporary difference is the principal issue to be considered for recognising deferred tax liabilities and deferred tax assets in accordance with TAS 12 (Revised 2014) "Income Taxes".

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