

Revenue Department Regulation

No. Tor Por 1/2528

Regarding the Application of the Accrual Basis in Calculating Income and Expenses of Companies
and Juristic Partnerships

By virtue of Section 65 Paragraph 2 of the Revenue Code as amended by the Revenue Code Amendment Act (No. 13) B.E. 2527, the Director-General of Revenue Department hereby issues a departmental order as follows:

Clause 1 The Revenue Department Order No. Tor 755/2528 Regarding the Application of the Accrual Basis in Calculating Income and Expenses of Companies and Juristic Partnerships, dated 10 July B.E. 2528 shall be repealed.

Clause 2 The calculation of income and expenses of a company or a juristic partnership shall comply with the accrual basis. That is, income arising in an accounting period, though not yet received in that accounting period, shall be included in that accounting period. All related expenses, though not yet paid in that accounting period, shall be included in that accounting period.

Clause 3 The following methods of calculating income and expenses in an accounting period are deemed to be approved by the Director-General of Revenue Department. The application of the listed method shall be carried on unless and until a request to change the previously followed accounting method is submitted to and approved by the Director-General of Revenue Department.

3.1 The calculation of income and expenses of companies or juristic partnerships carrying on a business of banking under the law governing commercial banking; a business of finance, securities and credit foncier under the law governing the operation of the business of finance, securities and credit foncier; and a business of securities in the security market under the law governing securities exchange; shall comply with the accrual basis in Clause 2, except for interest arising after the third month of the debtor's default on its debt obligation which may be included in the accounting period in which it is received.

The calculation of income and expenses of companies or juristic partnerships carrying on a business of life insurance, credit cards or other similar businesses, shall comply with the accrual basis in Clause 2, except for interest arising after the sixth month of the

debtor's default on its debt obligation which may be included in the accounting period in which it is received when the following conditions are satisfied:

- (1) The debtor's inability to fulfill the debt obligation is certain, and
- (2) There is a clear and convincing circumstance showing that the debtor does not have sufficient funds or assets to fulfill its debt obligation such as
 - (a) The total value of assets securing the debt is lower than the total value of the debt itself.
 - (b) The debtor has been operating a business at a loss for several years, or has terminated the business operation, or is in a process of closing its business account.
 - (c) The debtor has filed a civil claim or has requested to have the debt distributed among the joint debtors.
 - (d) The debtor has filed for bankruptcy or has submitted a proof of claim.

3.2 The calculation of income and expenses of companies or juristic partnerships carrying on a business of life insurance shall comply with the accrual basis in Clause 2, except for insurance premium which may be included in the accounting period in which it is received.

3.3 The calculation of income and expenses of companies or juristic partnerships carrying on a business of consignment shall comply with the accrual basis in Clause 2. Income in connection to consignment agreements, though not yet received, shall be included in the accounting period in which the consignment is in effect.

In case that a company or a juristic partnership carrying on a business of consignment in Paragraph 1 enters into a written agreement appointing a consignee who receives compensation or commissions under the agreement, the consigning company or juristic partnership may include income from the consignment in the accounting period in which the consignee sells the merchandise under the agreement.

3.4 The calculation of income and expenses of companies or juristic partnerships carrying on a business of property rentals shall comply with the accrual basis in Clause 2. Rent or installment payment in connection with the rental and related expenses shall be included in the accounting period in proportion to the rental period.

The calculation of income and expenses of companies or juristic partnerships for the rental of property shall comply with the accrual basis in Clause 2. Such companies or juristic

partnerships shall include rental expenses and any related expenses in the accounting period in which such expenses are paid.

3.5 The calculation of income and expenses of companies or juristic partnerships carrying on a business of hire-purchase or installment sale whereby the ownership in the property is not transferred to the hire-purchaser until the hire-purchase conditions are fulfilled and the hire-purchase term exceeds one accounting period, shall comply with the accrual basis in Clause 2. The gross profit from hire-purchase or installment sale shall be included during the term of hire-purchase or installment sale. Proceeds from the hire-purchase or installment sale shall be included in each installment in accordance with the generally accepted accounting method.

For installment sale whereby the ownership in the property is transferred to the purchaser immediately, the total amount of income from the sale shall be included in the accounting period in which the sale occurs.

The calculation of income and expenses of companies or juristic partnerships that are hire-purchaser or purchaser in an installment sale in Paragraph 1 shall comply with the accrual basis in Clause 2 whereby depreciation is deductible by the hire-purchaser and the cost basis in the property is the sum of the amounts payable for the property. The value of depreciation deductible in an accounting period shall not exceed the sum of hire-purchase payments or installment payments in that accounting period.

“Gross profit from hire-purchase or installment sale” in Paragraph 1 means the amount by which the selling price of the hire-purchase property exceeds the cost basis in the property.

“Proceeds” in Paragraph 1 means the difference between the hire-purchase price under the hire-purchase contract and the sale price in cash.

3.6 The calculation of income and expenses of companies or juristic partnerships carrying on a construction business shall apply the accrual basis in Clause 2. Income and related expenses shall be included in proportion to construction work that has been completed, in accordance with the generally accepted accounting method, in the accounting period in which the work is complete.

3.7 The calculation of income and expenses of companies or juristic partnerships carrying on a business of sale of immovable property shall comply with the accrual basis in Clause 2 and the following method for the purpose of the calculation of income and expenses in calculating net profit for income tax purposes:

(1) in case a sale of immovable property was registered in the same accounting period with the sale, income and related expenses are to be included as all income and expenses when the transfer of ownership of the immovable property was registered. ,

(2) include income and related expenses in proportion to the completed work in an accounting period to income and expenses in the accounting period.

(3) include income and related expenses in each installment in accordance with gross profit method.

Calculation of income and expense under (2) and (3) shall comply with the generally accepted accounting method.

In case that a company or a juristic partnership elected to comply with either method (2) or (3) for calculation of income and expenses for net profit calculation to pay income tax for sales of a certain type of immovable property, the company or the juristic partnership shall continue to follow such method for the sale of that type of immovable property, except a request to change the previously followed method is submitted to and approved by the Director-General of Revenue Department.

“Business of sale of immovable property” in Paragraph 1 means sale of land, sale of land with construction on the land, sale of construction, and sale of condominium.

3.8 The calculation of income and expenses of companies or juristic partnerships carrying on a business of golf course or providing services of long-term membership, shall comply with the accrual basis in Clause 2. Income received or receivable in a lump sum for the service, whether the sum is paid in installment or in a single payment, whether it is charged as a membership fee, security, deposit, service charge, or any other charge of a similar nature, shall be included in the accounting period in which the service is commenced, or divide such income by the number of contract years but not exceeding 10 years and include each divided amount in each accounting period up to 10 years starting from the year that the service is commenced.

Any refund made in accordance with the term of the service agreement is an expense in the accounting period in which the refund is paid.

3.9 The calculation of income and expenses of companies or juristic partnerships carrying on a business of short sale (the selling of securities whereby the delivered securities is the borrowed ones) in accordance with the notification of the Securities and Exchange Commission on rules, conditions and procedures for securities borrowing and lending, and the notification of the Securities and Exchange Commission on short sale, shall comply with the

accrual basis in Clause 2. Income received or receivable from short sale shall be included in the accounting period in which the sale occurs. The cost basis in the security is the closing price of the security on the date of borrowing. When the securities seller purchases and returns securities to the security lender, gain or loss shall be re-calculated such that the closing price on the date of borrowing is deemed to be the selling price. The cost basis in the security is the purchase price of the returned security (based on the same units) which is the basis of gain or loss on the date of returning the security, regardless of whether the returning is in the same accounting period as the borrowing. Expenses incurred in an accounting period shall be included in that accounting period.

3.10 The calculation of income and expenses of companies or juristic partnerships carrying on a business of purchasing or selling of securities under repurchase agreements according to the rules, procedures, and conditions of the Office of the Securities and Exchange Commission allowing securities companies and financial institutions regulated by the Bank of Thailand to sell or purchase securities upon repurchase agreements, shall comply with the accrual basis in Clause 2. Income received or receivable from short sale shall be included in the accounting period in which the sale occurs. The cost basis in the security is the closing price of the security on the date of borrowing. When securities seller purchases and returns securities to the security lender, gain or loss shall be re-calculated such that the closing price on the date of borrowing is deemed to be the selling price. The basis in the security is the purchase price of the returned security (based on the same units) which is the basis of gain or loss on the date of returning the security, regardless of whether the returning is in the same accounting period as the borrowing. Expenses incurred in an accounting period shall be included in that accounting period.

3.11 The calculation of income and expenses of asset management companies incorporated under the law governing asset management companies shall comply with the accrual basis in Clause 2, except income from nonperforming assets purchased or transferred from a financial institution under the law governing asset management companies. The asset management company may include such income in the accounting period in which it is received.

(as amended by the Revenue Department Regulation of No. Tor Por 155/2549, dated 12 September B.E. 2549, applicable to corporate tax computation for the accounting period starting on or after 1 January B.E. 2550)

3.12 The calculation of income and expenses of companies or juristic partnerships that have a concession contract with the government for a purpose of joint investment in a project operation, or operate a project with the government with subsidy from the government under a contract, shall comply with the accrual basis in Clause 2. Subsidy received from the government shall be proportionally allocated based on the duration starting from the date of Depreciation and depletion of cost occurred in the acquisition of the concession right under Section 65 Bis (2) of the Revenue Code to the date of the completion of the duration under the contract or the date of the termination of the contract, and included in the calculation of income for each accounting period.

“Government” under paragraph 1 shall include ministry, department, government unit, local authority, government organization, or other units of the government.

(as amended by the Revenue Department Regulation of No. Tor Por 279/2560, dated 27 April B.E. 2560, applicable starting on 27 April B.E. 2560)

Dated on the 28th day of August B.E. 2528

Wit Tantikul

Director-General, Revenue Department