

Independent Research Paper Title : Upcoming Problems of Revenue Recognition
in Banking Business of Thailand under
Section 65 of the Revenue Code

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ABSTRACT

The main objective of this independent research is to point out the upcoming problems of revenue recognition in the banking business of Thailand. Under Section 65 of the Revenue Code, an accrual basis shall be used in the calculation of income and expenses to calculate the taxable profit. However, in 2013, all banks must apply IFRS 9 and IAS 18 which are the International Financial Reporting Standards and the International Accounting Standards related to revenue recognition. This is mandated by the Bank of Thailand and the Federation of Accounting Professions in Thailand.

Under the current tax law, revenue recognition must be calculated from the contract rate whereas banks have to apply an effective interest rate (EIR) for revenue recognition under the new IFRS in the next three years. The different methodologies would create problems in tax computation. Provision expense on loans is another area of concern. Currently, Revenue Code allows provision expense to be tax expense as long as banks provide provision according to the Bank of Thailand's requirement. However, under the new IFRS, the Bank of Thailand would repeal the requirement and would like banks to apply the IFRS. It is questionable whether the provision expense on loan would still be a tax expense in the tax computation or not.

From the analysis, the problems require the Revenue Department to consider and find out an appropriate solution. It is recommended that the Department Instruction Thor. Por.1/2528 should be revised to interpret an accrual basis for the banking business to be consistent with the accounting standards for tax computation. Additionally, Bank of Thailand should issue the instruction to apply the accounting

standards for setting up the loan provision in order that the provision could be tax expense in tax computation. With regard to the recommendation, the Revenue Department will not lose its tax revenue as it should be only the timing difference. This will also help taxpayers in simplifying system development and, at the same time, can minimize the uncertainty of tax as well.

