UPCOMING PROBLEMS OF REVENUE RECOGNITION IN BANKING BUSINESS OF THAILAND UNDER SECTION 65 OF THE REVENUE CODE

BY
MS.JIRAPORN POPAIROJ

AN INDEPENDENT STUDY PAPER SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE OF MASTER OF LAWS (TAXATION LAW)

GRADUATE SCHOOL OF LAW
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Author	:	Ms.Jiraporn Popairoj
Major	:	Master of Laws (Taxation Law)
Advisor	:	Mrs.Paknapa Panich

Faculty of Law, Assumption University approves this Independent Study Paper as the partial fulfillment of the requirement for the Degree of Master of Laws.

N. Posakabutra .... Director of the Graduate School of Law

(Assoc.Prof. Nattapong Posakabutra)

Committee:

Sathit Pongtanya .... Chairman

(Dr.Sathit Pongtanya)

Jidtar N. .... Committee

(Ms.Jidtar Neesanun)

P. Panich .... Advisor and Committee

(Mrs.Paknapa Panich)

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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.

ACKNOWLEDGEMENT

I would like to express profound the gratitude to Mrs. Paknapa Panich, my advisor for her invaluable support, encouragement, supervision and useful suggestions throughout this independent research paper. I am also highly grateful to Assoc.Prof.Nattapong Posakabutra, Director of Master of Laws Program for his valuable suggestions throughout this Taxation Program. His moral support and continuous guidance enabled me to complete my study successfully.

I am especially indebted to my parents for their love, encouragement and support everything in my life. Moreover, thank you so much to LL.M. friends for sincerity, careful and valuable experiences to me.

Jiraporn Popairoj

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Chapter 1
Introduction

1.1 Background and General Statement of the Problems

It is acceptable that the accrual basis under Section 65 of the Revenue Code is used for tax calculation on taxable profit although it is not exactly the same as the accrual basis under accounting standards. According to Section 65 of the Revenue Code, accrual basis means the income will be recorded under the legal right to claim against customers. However, accrual basis on revenue recognition under accounting standards means all income should be recorded as earned from all efforts.

Normally, banks record interest income from loans granted to clients and where banks have not received debt repayment for 3 consecutive periods; banks have to classify such debtor as a NPL or Non Performing Loan and must stop accruing the interest income in the book. At the same time, banks must reverse all income booked in the previous periods and start booking interest income on a cash basis. This is mandated by the Bank of Thailand as a conservative approach for accounting for NPL.

However, the Tax treatment is different from the above. NPL interest must be accrued for three months and the reversed interest income must be used for the corporate tax computation. The system could be easily developed to keep the information for banks to reconcile between both tax and Bank of Thailand's requirement.

Please note that the Bank of Thailand's requirement is the same as the requirement of Thai accounting standards. Currently, accounting standards require that revenue recognition on loan must be based on the interest rate specified in the loan contract. Therefore, currently, there is no difference between the requirement of the Revenue Code and accounting standards. To reconcile the information from the accounting record to tax base as required by the Revenue Code is not too complicated and can be achieved without huge costs and time consuming because the reconciliation can be performed at the top level, not at the detailed transaction level.

In 2013, the situation will be made more complex when Bank of Thailand requires all banks and financial institutions to follow international accounting standards which are IAS 18 (International Accounting Standards on Revenue recognition) and IFRS 9 (the International Financial Reporting Standards for Financial Instruments). According to the IAS 18 and IFRS 9, banks must apply an effective interest rate for revenue recognition for all loan life instead of contract rate.

We should imagine that in order to have information of interest on loan under the expected new requirement of the Bank of Thailand and accounting standards, banks need to develop the new system for every transaction incurred. However, banks will not be able to prepare for corporate income tax computation without separate system development. Interest rate used for accounting will be an effective interest rate whereas tax is using the contract rate. Information for accounting and tax computation will be derived from the different systems and require more development and maintenance costs.

From the interview of accounting function of many banks, the amount used for such system development could be approximately Baht 50-100 million. The current information from the Bank of Thailand shows that there are 16 Thai banks, 15 branches and one bank that is the subsidiary of foreign banks in Thailand. This means that we are going to use the money for developing the new system to comply with tax and new accounting standards for Baht billion. It is a huge investment. On top of this, the most importance is simplicity. Good tax strategy should facilitate taxpayers and reduce those expected complicated conditions.

Another problem is the provision expense on loan. It is currently accepted to be tax expense in tax computation on the condition that banks calculate the provision according to the loan classification required by the Bank of Thailand. However, when IFRS is adopted in Thailand, the provision will be calculated from the accounting standards instead of the loan classification. It is in question whether the provision expense is still tax expense.

1.2 Hypothesis of the Study

There are differences between revenue recognition under tax and accounting rules. If Department Instruction of the Revenue Department can be revised to have clearer interpretation on the accrual basis and allow banks to use the accounting standards, it will facilitate taxpayers in tax computation and can minimize the compliance costs for taxpayers.

We also need to check whether or not the revision proposed will make government suffer from the less tax collection than the current basis.

It should also be compared to the foreign tax law of the United Kingdom and the United States of America. Both countries are more developed in tax policy and accounting standards. If both countries' tax laws follow accounting standards, it is harmless to follow.

1.3 Objectives of the Study

1. To study the current revenue recognition under Section 65 of the Revenue Code, the current revenue recognition under the Bank of Thailand and accounting standards as required by the Federation of Accounting Professions.

2. To analyze the upcoming problems of revenue recognition in banking business in Thailand when IFRS 9 is mandated by the Bank of Thailand in 2013.

3. To study the revenue recognition for tax purpose in foreign countries such as the United Kingdom and the United States of America.

4. To find the solution to the upcoming problems of revenue recognition in banking business in Thailand when IFRS 9 is mandated by the Bank of Thailand in 2013.

5. To find out the solution on another problem of provision expense on loan when IFRS is adopted in Thailand.

1.4 Study Methodology

This research paper will be analyzed and researched utilizing documentary research i.e. Revenue Code of Thailand, Revenue Code of the United States of America, Revenue Code of the United Kingdom, including text books, journals, applicable thesis, articles, documents and electronic information. Also, IFRS 9 and website of the Bank of Thailand, website of the US GAAP (the USA-Generally Accepted Accounting Principles), website of the IFRS (the UK-Generally Accepted Accounting Principles which is based on the International Financial Reporting Standards or "IFRS") and website of Thai GAAP which is under the Federation of Accounting Professions in Thailand as well as website of the Revenue Code of Thailand, UK and USA will be used to understand the methodology and requirements.

1.5 Scope of the Study

This research paper encompasses the study of revenue recognition problems in banking business under Section 65 of the Revenue Code of Thailand when facing the new international accounting standards. The scope will cover only corporate income tax (CIT) and will not cover the specific business tax (SBT). By analyzing and comparing the revenue recognition in corporate income tax between Thailand and foreign countries. The United Kingdom and the United States of America are selected because both countries are leaders in tax policy and should be comparable in this aspect as these countries apply the worldwide income basis for CIT.

1.6 Expectation of the Study

1. To know the revenue recognition under Section 65 of the Revenue Code of Thailand, United Kingdom and the United States of America.

2. To understand and to find the solution of the upcoming problems of revenue recognition in banking business of Thailand when IFRS 9 is mandated by the Bank of Thailand in 2013.

3. To find out the solution for another problem on provision of loan when IFRS is adopted in Thailand.

Chapter 2

General Principle under Section 65 and IFRS

2.1 Introduction

The local tax law and IFRS will be specified in both revenue recognition and provision on loan although the study will concentrate on the analysis on the upcoming impact of the new IFRS on the tax computation regarding the revenue recognition under the effective interest rate (EIR) method. The analysis will also cover the impact on the provision on loan which is currently taxable expense and may not be taxable expense when the new IFRS is adopted in the next three years in order to strengthen the analysis in Chapter 4 and Chapter 5.

2.2 Corporate Income Tax in Thailand and Accrual Basis

Section 65 of the Revenue Code of Thailand regarding revenue recognition[1] "Taxable income under this Part is net profit which is calculated by deducting income from business or income arising from business carried on in an accounting period with expenses in accordance with conditions prescribed in Sections 65 Bis and 65 Ter. An accounting period shall be twelve months except in the following cases where it may be less than twelve months:

1. A newly incorporated company or juristic partnership may elect to use the period from its incorporation date to any one date as the first accounting period.

2. A company or juristic partnership may file a request to the Director-General to change the last day of an accounting period. In such a case, the Director-General shall have the power to grant approval as he deems appropriate. Such an order shall be notified to the company or juristic partnership who files the request within a reasonable period of time and in the case where the Director-General grants

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[1] Revenue Department, Revenue Code of Thailand Section 65, at http://www.rd.go.th (last visited 5 October 2010).

the permission, the company or juristic partnership shall comply with the accounting period as prescribed by the Director-General.

The calculation of income and expenses in paragraph 1 shall use an accrual basis. Income arising in an accounting period, even though it is not yet received in such accounting period, shall be included as income for that accounting period. All expenses relating to such income, even though they are not yet paid, shall be included as expenses for such accounting period.

In a necessary case, a taxpayer may file a request to the Director-General to change the accrual basis and accounting method for the calculation of income and expenses under paragraph 2. And when approved by the Director-General, he shall comply with the accounting period as prescribed by the Director-General.

Department Instructions number Thor.Por.1/2528 and Thor.Por.155/2549 Re: Guidelines on Accrual Basis for the calculation of income and expenses

Following the second paragraph of Section 65 of the Revenue Code of Thailand, Department Instruction number Thor.Por.1/2528 Re: Guidelines on Accrual Basis for the calculation of income and expenses was issued on 28 August B.E.2528 and Department Instruction number Thor.Por. 155/2549 was issued on 28 September B.E. 2549 for the guidelines on accrual basis in tax way which is different from accounting way.

Under the guidelines, the accrual basis is mentioned in Department Instructions number Thor.Por.1/2528 and Thor.Por.155/2549 Re: Guidelines on Accrual Basis for the calculation of income and expenses;[2] "To exercise of the power under the second paragraph and third paragraph of Section 65 of the Revenue Code as amended by the Revenue Code Amendment Decree (No13) B.E. 2527, the Director-General of Revenue prescribes rules for application as follows:-

Clause1. There shall be repealed the Revenue Department's Regulation No.Taw.755/2528, Subject Application of accrual basis in the computation of revenue and expenses of juristic companies and partnerships dated 10th July B.E.2528.

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[2] Department Instruction Tho.Por.1/2528, at http://www.rd.go.th (last visited 5 October 2010).

Clause2. In the computation of revenue and expenses of a juristic company or partnership, the accrual basis shall be applied whereby revenue arising in an accounting period, even though not paid and received in that period, shall be included as revenue of the period, and all expenses relevant to such revenue, even though not paid out in the period, shall be included as expenses of that period.

Clause 3.1[3] The accrual basis as described in clause 2 shall be applied in the computation of its revenue and expenses of a juristic company or partnership carrying on business of banking under the law governing commercial banking; finance, finance and securities, and credit fanciers business; and securities business under the law governing securities and securities exchanges: Provided that if the revenue in the form of interest has been in default for more than three consecutive months, such juristic company or partnership may treat interest received thereafter as the revenue of the accounting period in which it is received."

There are two different standpoints in interpreting the accrual basis on tax and accounting standards. The first standpoint is that the concept of accrual basis under taxation completely differs from accounting standards. The second standpoint is that the main concept of accrual basis under taxation, in general, agrees with accounting standards.

[4]With regard to the first standpoint, the concept of accrual basis under taxation is consistent with the civil law which means that the accrual from the legal right to claim for collection for the business. Conversely, the concept of accrual basis in the light of accounting standards, revenue is recognized when it is earned, no matter whether cash is received or not. Obviously, the fundamental concepts of accrual basis under taxation and accounting are different.

The second standpoint is that the Revenue Department generally follows the accounting standards for interpreting the accrual basis. In other words, the fundamental concept of accounting accrual basis is accepted for tax computation. However, for

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[3] Department Instruction No.Thor. Por. 155/2549, at http://www.rd.go.th (last visited 5 October 2010).

[4] Uaypom Tanlamai, Deloitte Touch Tohmatsu Chaiyos, at http://www.rd.go.th (last visited 5 October 2010).

certain types of business, the Revenue Department creates its own rules for income recognition and expense realization which differ from accounting accrual basis. Consequently, this could make taxpayers confuse whether tax law accepts accounting standards or not.

Regulation number Thor.Por.1/2528 Re: Guidelines on Accrual Basis for the calculation of income and expenses; was issued when Accounting Standards were not regarded as law and it was unnecessary for Revenue Department to follow Accounting Standards. However, this results in the confusion for taxpayers as they have to follow tax law and, at the same time, they have to comply with Accounting Standards which are now mandated to corporation as they are law since B.E.2543.

From the above, we know that under Section 65 of the Revenue Code of Thailand, corporate income tax is calculated from net profit. Net profit must be computed on the accrual basis which, with certain exceptions, generally follows accounting practice. Also, provision for Bad Debt for the part that is complied with the Bank of Thailand's regulation can be deductible expenses as per Section 65 Ter (1) (c)

2.3 Section 65 ter (1) (c) of the Revenue Code of Thailand regarding Provision on Loan

Provision for loan loss is currently allowed to be taxable expense as it is under the Bank of Thailand's requirement as per Revenue Code Section 65 ter (1) (c) which indicates that " A reserve set aside for bad debts or suspected bad debts from liability arising from the provision of credit which a commercial banks sets aside under the laws governing commercial banks is allowed to be taxable expense for the amount set aside which increases from such type of reserve appearing in the balance sheet of the previous accounting period." The Bank of Thailand has issued the Notification No. Sor Nor Sor. 31/2551 Re: Classification and Provision of Financial Institutions regarding the loan provision in accordance with the loan classification.

2.4 Banks are under Bank of Thailand's Regulations Guideline for revenue recognition

For banking industry, major income derives from interest on loans granted to clients. Therefore, interest income is calculated from loan agreement which is complied to the legal right to claim against customer. Banks are under the control of Bank of Thailand. The recording is to be performed under the Bank of Thailand's Regulations which mentioned in the Notifications as specified in APPENDIX 5 Revenue recognition. In summary, banks must use cash basis for income recording in case banks fail to collect from loan repayment for three consecutive periods. All interest income accrued for the three month must be reversed as well.

1. Guideline for Asset Classification and Provisions

The Bank of Thailand has required financial institutions to set up the provision of debtors in accordance with the Notification No. Sor Nor Sor. 31/2551 Re: Classification and Provision of Financial Institutions. The guidelines set up the requirement for providing the asset classification in line with aging of assets. The minimum provision must be provided as required by each class of assets:

Asset Class	% set up for provision
Normal	1
Special mention	2
Substandard	100
Doubtful	100
Doubtful of loss	100

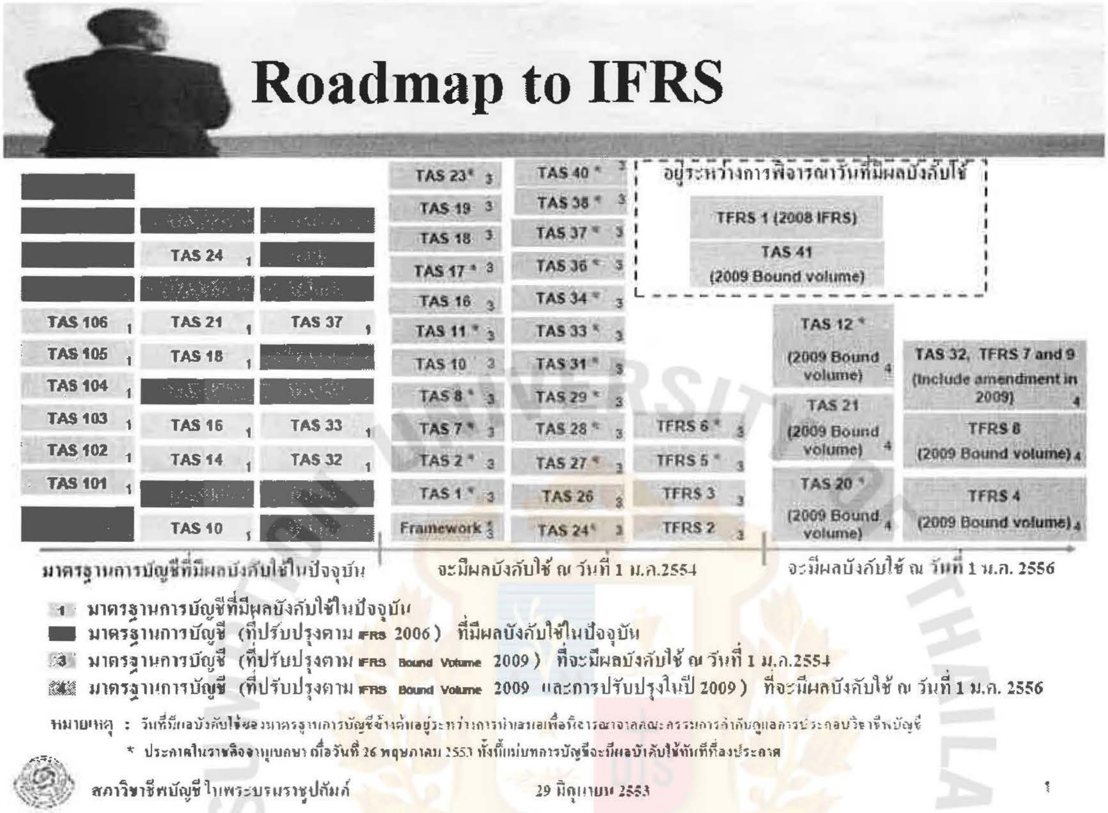
Accounting standards under Federation of Accounting Professions and Bank of Thailand are almost at the same concept and will take into account the international accounting standards for global comparison and future. Tax law reflects a different concept that aims to collect tax and set up its own rule. Accrual Basis is one example to look at. In fact, Section 65 announced the general concept that other countries also mention, that is the concept of accounting accrual basis. However, with the special rules of Department Instruction Thor.Porl/2528 and Thor.Por.155/2549, the accrual basis principles for accounting and tax are not exactly the same.

In conclusion, banks must apply contract rate according to the Revenue Code and Department Instruction Thor.Porl/2528 for tax calculation. In the preparation of the financial statements, banks must apply Thai accounting standards and Bank of Thailand's regulations.

Thai accounting standards are developed and announced by the Federation of Accounting Professions which is based on the IFRS (International Financial Reporting Standards). Most European countries apply IFRS for accounting standards. In the United States of America, accounting standards are called US.GAAP and "GAAP" means "the Generally Accepted Accounting Principles". Thai accounting standards will be announced and applied in Thailand later than the implementation in European countries. IFRS is the principle base whereas US GAAP is the rule base. However, both IFRS and US GAAP are now under the convergence process to be the only one GAAP of the world.

In Thailand, banks have to apply the effective interest rate method that is mentioned in IAS 18 (International Accounting Standards No 18 accounting standards on revenue recognition) and IFRS 9 (formerly called IAS 39 or International Accounting Standards No.39 accounting standards for financial instruments) for the preparation of the financial statements in the next three years. Therefore, we should know more about the status of the IFRS adoption in Thailand.

2.5 IFRS Adoption in Thailand[5]



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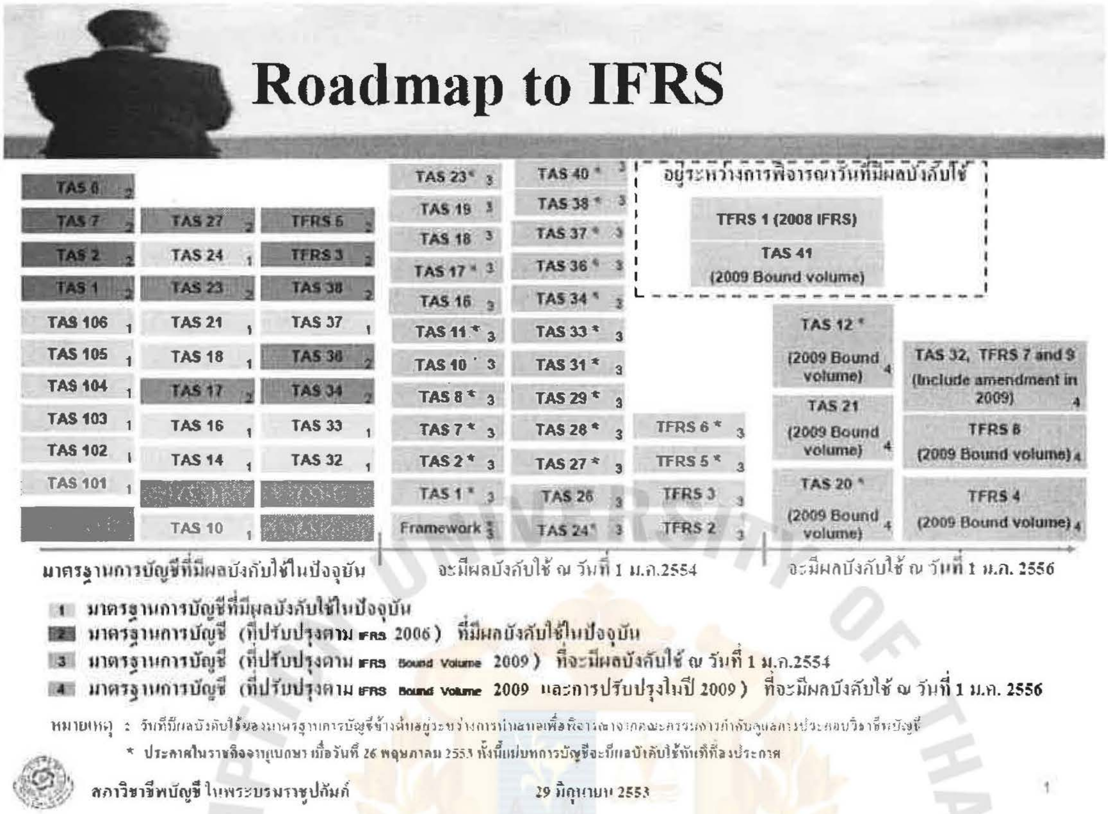
[5] Roadmap to IFRS, at http://wwwfap.or.th (last visited 15 October 2010).



[6]According to the Federation of Accounting Professions and Bank of Thailand, IAS 18 and IFRS 9 are planned to be mandated in 2013 and 2015, respectively.

International Financial Reporting Standards related to financial institutions which are International Accounting Standards (IAS) no 18 is Accounting Standards for Revenue recognition. IFRS no.9 is International Financial Reporting Standards for financial instruments.

Effective interest rate (EIR) is mentioned in both IAS 18 and IFRS 9 (formerly IAS 39) but the composition of the calculation of EIR has not yet been finalized by International Accounting Standards Board. The requirement in calculation of EIR is always changed and improved up to now. The latest version for the implementation in Thailand is version 2008 and is being developed for more applicable with including credit risk consideration in the EIR calculation which is anticipated to be ready by 2013 and expected to be announced effective in 2014.

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[6] Roadmap to IFRS, at http://wwwfap.or.th (last visited 15 October 2010).

[7]IFRS club of Thai Banks Association is now in opinion that the implementation for the above should wait for the final requirement from the last version that is expected by the IFRS Board in 2014 and Thailand should adopt the accounting standards in 2015 for the EIR part which is one year after the implementation of the expected last version from the IFRS Board. Bank of Thailand seems to accept but with some anxiety that Thailand has not yet implemented the international accounting standards no.39 whereas other countries have already adopted. The Federation of Accounting Professions is now discussing the problems and would like to use the version 2008 for the adoption in 2013 as mentioned before.

Although the solution has not yet been finalized, at least, we know that these accounting standards are going to be implemented in Thailand in 2013 or 2015. Accrual basis is going to change from the interest contract rate to the effective rate for the revenue recognition in the next three years.

2. IFRS 9[8]

International Financial Reporting Standards 9 was approved for issue by thirteen of fifteen members of the International Accounting Standards Board in November 2009. The standards deal with the accounting for financial instruments which comprises:

Classification and measurement of financial assets which were placed more emphasis on when compared to financial liabilities after the global financial crisis.

It specified that a financial instrument has basis loan features if its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. For the purpose of this condition, interest is consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time, which may include a premium for liquidity risk.

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[7] Interview with Audit Partner in Deloitte Touch Tohmatsu, n.p., 28 October 2010.

[8] International Financial Reporting Standards, 9 Financial Instruments, at http://www.ifrs.org (last visited 15 July 2010).

The objective of the effective interest method for financial instruments measured at amortized cost is to allocate interest revenue or expense to the relevant period. Cash flows that are interest always have a close relation to the amount advanced to the debtor (the 'funded' amount) because interest is consideration for the time value of money and the credit risk associated with the issuer of the instrument and with the instrument itself. The Board noted that the effective interest method is not an appropriate method to allocate cash flows that are not principal or interest on the principal amount outstanding. The Board concluded that if a financial asset contains contractual cash flows that are not principal or interest on the principal amount outstanding then a valuation overlay to contractual cash flows (fair value) is required to ensure that the reported financial information provides useful information.

Under the EIR, financial institutions need to change their revenue recognition using the EIR instead of the contract rate which is the rate used for tax calculation on interest income. EIR needs to be changed to respond to the change of cash flow of loan or terms of loan or interest rate. This could happen when there is the trouble debt restructuring.

3. Effective Interest Rate

[9]Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (IAS 18) , transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial

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[9] Glossary of Terms of the IFRS International Financial Reporting Standards, at http://www.ifrs.org (last visited 15 July 2010).

instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of the financial instruments).

4. Revenue recognition under IFRS

[10]According to the IAS 18, revenue recognition under business of service rendering mentioned on the financial service fees below:

"The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Therefore, it is necessary to distinguish between fees that are an integral part of the effective interest rate of a financial instrument, fees that are earned as services are provided, and fees that are earned on the execution of a significant act.

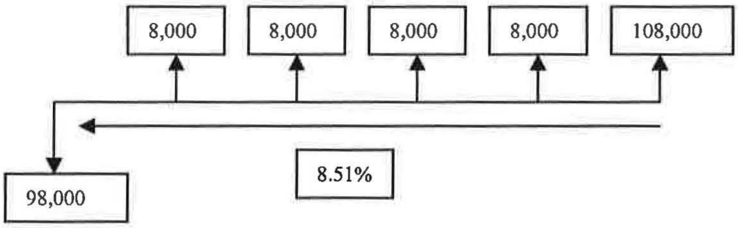
5. Example to find out the Effective Interest Rate

In order to understand the EIR concept as well as the revenue recognition using the EIR more clearly, the example in the next two pages will demonstrate the way to find out the EIR and the way of revenue recognition.

Banks A grants a fixed rate loan for 5 years with an amount of $100,000

- Fixed interest = 8% (payable annually).
- Transaction fee = 2,000.
- Step 1 – Determine the cost at initial recognition
  Cost = $100,000 - $2,000 = $98,000
- Step 2 – Calculate effective interest rate = 8.51%

[10] IFRS, International Accounting Standard 18, at http://www.ifrs.org (last visited 15 July 2010).



Step 3 recognize effective interest in profit and adjust amortized cost

date	Amortized cost at beginning of year	Interest Income	Interest payment	Effective interest amortisation	Principle repayment	Amortised cost at end of year
	(A)	(B) = 8.51% * (A)	C = 8% * 100,000	(D) = (B) – C	(E)	(A) + (D) - (E)
20X1	98,000	8,337	8,000	337		98,337
20X2	98,337	8,366	8,000	366		98,704
20X3	98,704	8,397	8,000	397		99,101
20X4	99,101	8,431	8,000	431		99,532
20X5	99,532	8,468	8,000	468	100,000	-

The Demonstration of Income Recording

Transaction	Balance Sheet		Income Statement		Equity	
	Dr	Cr	Dr	Cr	Dr	Cr
1. Loan origination on 1 Jan 20X1	Loan 98,000	Cash 98,000				
2a. Recognize effective interest and payment of interest on 31 Dec 20X1	Cash 8,000 Loan 337			Interest income 8,337		
2b. Recognize effective interest and payment of interest on 31 Dec 20X2	Cash 8,000 Loan 366			Interest income 8,366		
3. Recognize effective interest and redemption of bond at maturity on 31 Dec 20X5	Cash 108,000 Loan 468	Loan 100,000		Interest income 8,468		

- At maturity, the discount will be reduced to zero, leaving the carrying amount of the loan at $ 100,000.
- Interest income is not constant but increased in each period

2.6 Conclusion on General Principle under Section 65 and IFRS

From this chapter, we know that tax law under Section 65 regarding revenue recognition requires the contract rate in tax computation. Accounting standards in the next three years need the EIR for revenue recognition. Chapter 3 will tell us about the tax law in the United Kingdom and the United States of America regarding revenue recognition.

Chapter 3

Revenue recognition for Tax Base in Foreign Countries

3.1 Introduction

Under corporate income tax of the United States of America and the United Kingdom, revenue recognition is generally based on accounting standards. In contrast, Thailand is based on the specific rule for accrual basis from legal right to claim and does not follow accounting standards.

The reason why we use the United Kingdom and the United States of America for the study of the foreign countries' tax law due to the fact that both countries are leaders and more developed in terms of tax policy and accounting standards. This should be the good example for our country to study and follow.

3.2 Tax Base in the United Kingdom

3.2.1 Tax Law

From the Corporation Tax Act 2010 of the United Kingdom, some related part is listed below:

PART 2[11]

Calculation of Liability in Respect of Profits

Chapter 3

Calculation of Amount to which Rates Applied

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[11] The Corporation Tax Act 2010, at http://www.legislation.gov.uk (last visited 8 October 2010).

4 Amount of profits to which corporation tax rates applied

1) In the calculation under paragraph 8(1) of Schedule 18 to FA 1998 of the amount of corporation tax payable for an accounting period of a company, the Corporation Tax Act 2010 (c. 4)

Part 2 Calculation of liability in respect of profits

Chapter 3 Calculation of amount to which rates applied 4 first step is to apply the rate or rates of corporation tax applicable to the profits of the company of the period on which tax is chargeable.

2) The profits of a company of an accounting period on which corporation tax is chargeable (in this Act referred to as the company's taxable total profits of the period) are found as follows

Step 1

Find the company's total profits of the period (see subsection (3)).

Step 2

Deduct from the result of Step 1 any amounts which can be relieved against the company's total profits of the period.

3) To find a company's total profits of an accounting period take the following steps.

Step 1

Find the amount in respect of which the company is chargeable for the period under the charge to corporation tax on income after any reduction required to give effect to relief from tax.

Step 2

Add to the result of Step 1 any amount to be included in respect of chargeable gains in the company's total profits of the accounting period (see section 8 of TCGA 1992) after any reduction required to give effect to relief from tax.

(4) Subsections (2) and (3) are subject to the provisions of the Corporation Tax Acts.

1127 "Generally accepted accounting practice" and related expressions

(1) In the Corporation Tax Acts "generally accepted accounting practice" means UK generally accepted accounting practice. This is subject to subsection (3).

(2) In the Corporation Tax Acts "UK generally accepted accounting practice"

(a) Means generally accepted accounting practice in relation to accounts of UK companies (other than IAS accounts) that are intended to give a true and fair view, and

(b) Has the same meaning in relation to

(i) Individuals,

(ii) Entities other than companies, and

(iii) Companies that are not UK companies, as it has in relation to UK companies.

(3) In relation to the affairs of a company or other entity that prepares IAS accounts; in the Corporation Tax Acts "generally accepted accounting practice" means generally accepted accounting practice in relation to IAS accounts.

(4) In the Corporation Tax Acts "for accounting purposes" means for the purposes of accounts drawn up in accordance with generally accepted accounting practice.

(5) In the Corporation Tax Acts "international accounting standards" has the same meaning as in Regulation (EC) No 1606/2002 of the European Parliament and the Council of 19 July 2002 on the application of international accounting standards.

(6) If the European Commission has in accordance with that Regulation adopted an international accounting standard with modifications, then as regards matters covered by that standard"

3.2.2 Summarize on the UK Corporate Income Tax Law

The starting point for computing taxable profits is profits before tax. The rules for calculating corporate income tax generally ran in parallel with income tax until 1993, when the first statutory rule to move profit reporting line with generally accepted accounting practice was introduced, although the courts were already moving towards requiring trading profits to be computed using general accountancy rules.

The Finance Act 1993 introduced rules to make tax on exchange gains and losses mimic their treatment in a company's financial statements in most instances. The Finance Act 1994 saw similar rules for financial instruments, and in the Finance Act 1996 the treatment of most loan relationships was also brought into line with the accounting treatment. The Finance Act 1997 saw something similar with rental premiums. A year later, the Finance Act 1998 went even further, making it clear that taxable trading profits and profits from a rental business are equal to profits calculated under generally accepted accounting practice ("GAAP") unless there is a specific statutory or case law rule to the contrary. This was followed up by the Finance Act 2004, which ruled that where a company with investment business could make deductions for management expenses, they were calculated by reference to figures in International Financial Reporting Standards

From 2005, all European Union listed companies have to prepare their financial statements using the "International Financial Reporting Standards" ("IFRS"), as modified by the EU. Other UK companies may choose to adopt IFRS. Corporation tax law is changing so that, in the future, IFRS accounting profits are largely respected. The exception is for certain financial instruments and certain other measures to prevent tax arbitrage between companies applying IFRS and companies applying UK GAAP.

UK GAAP (Generally Accepted Accounting Principles) as it stood prior to 1 January 2005 has been amended to incorporate many of the developments in International Accounting Standards (IAS), while in some cases it is possible to use IAS as an alternative. In addition, the EU requires IAS to be used in some circumstances. In recent years, the accounting treatment of corporate finance transactions has undergone considerable change. Profit must be based on the revised UK GAAP or IAS/IFRS.

Under corporate income tax of the United Kingdom, revenue recognition is based on the Accounting Standards.

Accounting standards of UK for financial institutions is based on IFRS and for financial institution will be based on IAS 18 and IFRS 9 which are the same accounting standards of Thailand as Thai accounting standards are based on International Accounting Standards as well.

Mostly, corporate income tax in the United Kingdom is based on accounting standards so the revenue recognition in corporate income tax is in line with revenue recognition in financial statements and there is no requirement for reconciliation between corporate income tax and financial statements.

3.3 Tax Base in the United States of America

3.3.1 Tax Law

From the US Code of the United States of America, some related part is listed below:

§ 446. General rule for methods of accounting

(a) General rule

Taxable income shall be computed under the method of accounting on the basis of which the taxpayer regularly computes his income in keeping his books.

(b) Exceptions

If no method of accounting has been regularly used by the taxpayer, or if the method used does not clearly reflect income, the computation of taxable income shall be made under such method as, in the opinion of the Secretary, does clearly reflect income.

(c) Permissible methods

Subject to the provisions of subsections (a) and (b), a taxpayer may compute taxable income under any of the following methods of accounting—

(1) The cash receipts and disbursements method;

(2) An accrual method;

(3) Any other method permitted by this chapter; or

(4) Any combination of the foregoing methods permitted under regulations prescribed by the Secretary.

(d)Taxpayer engaged in more than one business

A taxpayer engaged in more than one trade or business may, in computing taxable income, use a different method of accounting for each trade or business.

(e) Requirement respecting change of accounting method

Except as otherwise expressly provided in this chapter, a taxpayer who changes the method of accounting on the basis of which he regularly computes his income in keeping his books shall, before computing his taxable income under the new method, secure the consent of the Secretary.

(f) Failure to request change of method of accounting

If the taxpayer does not file with the Secretary a request to change the method of accounting, the absence of the consent of the Secretary to a change in the method of accounting shall not be taken into account—

(1) To prevent the imposition of any penalty, or the addition of any amount to tax, under this title, or

(2) To diminish the amount of such penalty or addition to tax.

§ 448. Limitation on use of cash method of accounting

(a) General rule

Except as otherwise provided in this section, in the case of a—

(1) C Corporation,

(2) Partnership which has a C corporation as a partner, or

(3) Tax shelter, taxable income shall not be computed under the cash receipts and disbursements method of accounting.

3.3.2 Summarize on the US Corporate Income Tax Law

Under corporate income tax of the United States of America, revenue recognition is based on the accounting standards. Domestic corporations are taxed on nearly all gross income (including, income from a business, compensation for services, fees and commissions, dividends, interest, royalties, rents, gains from dealings in property and income from a partnership), from whatever source derived, less deductions allowed for depreciation, amortization, expenses, losses and certain other items.

The U.S. Securities and Exchange Commission (SEC) requires publicly traded companies to file their financial statements according to U.S.GAAP, which is set by the Financial Accounting Standards Board (a non-governmental entity) for public and private companies and non-profits.

The SEC issued in November 2008 a proposed international Financial Reporting Standards (IFRS) "roadmap" outlining milestones that, if achieved, could lead to the mandatory transition to IFRS starting in fiscal years ending on or after 15 December 2014. The roadmap also contains proposed rule changes that would give certain U.S. issuers the early option to use IFRS in financial statements for fiscal years ending or after 15 December 2009. Therefore, the convergence process between US GAAP and IFRS is being processed to fulfill the requirement.

3.4 Convergence of US.GAAP and IFRS

The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) are working on nearly a dozen joint projects designed to improve both US Generally Accepted Accounting Principles (US GAAP) and International Financial Reporting Standards (IFRS), and ultimately make the standards fully compatible.

Through these projects some covering major components of the financial statements the boards intend to improve financial reporting information for investors while also aligning US and international accounting standards. These projects are a significant move toward achieving a common accounting framework, a necessary step in the globalization of business and investment.

The full list of projects is as follows:

- Financial instruments
- Revenue recognition
- Leases
- Statement of comprehensive income
- Fair value measurement
- De-recognition
- Consolidations
- Post-employment benefits
- Balance sheet - Netting
- Financial statement presentation
- Discontinued operations
- Financial instruments with characteristics of equity
- Insurance contracts
- Emissions trading schemes

Currently, the first five projects (in bold) are considered priority projects - largely due to the existing divergence of US GAAP and IFRS and the need for improvements in the standards they are meant to replace.

3.5 Conclusion on Revenue Recognition for Tax Base in Foreign Countries

From this chapter, we realize that in the United Kingdom and the United States of America, corporate income tax law is based on the accounting standards. Tax law relies on accounting standards. In the United States of America, tax law respects US GAAP. In the United Kingdom, tax law respects IFRS and IAS. Additionally, we know that, currently, US GAAP and IFRS are in process of convergence and we would expect the global accounting standards in the near future.

Chapter 4

Analysis of the Problems of Revenue Recognition in Banking Business in Thailand under Section 65 of the Revenue Code

There are two problems in banking business if the new accounting standards are mandated in the next three years, revenue recognition and provision on loans. The first problem is the major problem that we are going to analyze. However, the second one is also mentioned in this chapter.

4.1 Revenue Recognition Problem Current Situation

As stated in Chapter 2, it is acceptable that the accrual basis under Section 65 of the Revenue Code is used for tax computation on taxable profit although it is not exactly the same as the accrual basis under accounting standards. According to Section 65 of the Revenue Code and Department Instruction Number Thor.Por.1/2528, bank is using the accrual basis with the contract rate calculating the income which is the same amount that bank has the legal right to claim against customer.

Under tax requirement as per Department Instruction number Thor.Por.155/2549, cash basis can be used after three consecutive months default on loan repayment. However, interest income that has been recorded as accrued interest income must be counted as income for tax payment purpose.

For banking industry, income derives from interest on loans granted to clients. Therefore, interest income is calculated from loan agreement which is complied to the legal right to claim for loan granted. According to Bank of Thailand, in case banks have not received debt repayment for three consecutive periods, banks have to classify such debtor as the NPL or Non Performing Loan and must stop accruing the interest income in the book. At the same time, banks must reverse all income booked in the previous periods and start booking interest income in cash basis.

However, Tax is different from the above. NPL interest must be accrued for three months and the reversed interest income must be used for tax computation as well. The system could be easily developed to keep the information for banks to reconcile between both tax and Bank of Thailand's requirement.

Normally, banks pay corporate income tax on the semi-annual basis. Banks have to reconcile from the actual profit as per accounting under the Bank of Thailand's requirement to find out the tax base for CIT computation. Currently, the reconciliation can be performed at the high level by adding back the reversed interest income that banks have to reverse as required by the Bank of Thailand. Normally, banks will have information of all reversing entries for the accrued interest income which could be kept by the banks' computer system.

The only difference between tax and accounting is the stop accruing method. The main idea of stop accruing method is the method mandated by the Bank of Thailand instructing banks to stop accruing the interest income on loan when loan is unpaid or default for the consecutive three months. The interest that has already been accrued for interest income in accounting records for three months has to be reversed as well. This is not allowed by tax law as it is stated in the Thor.Por.155/2549 that cash basis can be used after three consecutive months default on loan repayment. However, interest income that has been recorded as accrued interest income must be counted as income for tax computation purpose.

Therefore, in the current period, banks have been faced with the difference between tax law and accounting records under Thai accounting standards and the Bank of Thailand's regulations. However, the reconciliation between the tax law and accounting records could be easily performed at the high level under the support of the Banks' system. Banks only add the reversed interest income into the accounting records to obtain the amount required for tax computation.

1. Upcoming Revenue recognition Problem

Bank of Thailand is going to instruct all banks and financial institutions to follow IAS 18 and IFRS 9 which are the International Financial Reporting Standards that will not allow banks to use the contract rate any more. Banks have to apply an effective interest rate for revenue recognition for all loan life instead of contract rate.

When IFRS adopted in 2013, financial institutions will need to improve or enhance the existing system to be able to process the interest revenue recognition with both the contract rate and the effective interest. Please note that the current system of interest income as per contract rate is still needed for the database to issue the statement to charge to the client as required by legal. However, for recording the revenue recognition, another system must be established to facilitate the recording as per accounting standards' requirement.

Under the Revenue Code Section 65 corporate income tax will be based on the revenue recognition calculating by using the contract rate. This leads to difficulties for banks to keep recording for EIR method and, at the same time, they must have database for tax purpose. Tax computation should be reconciled with the financial statements to ensure that the data for corporate income tax is correct.

It is true that banks and financial institutions do not have to create more data because the statements of account will be issued to charge to the client as per contract rate. However, the reconciliation between the EIR and the contract rate revenue recognition is not that easy. Do not forget that the EIR must be performed for each loan contract and the reconciliation must be at the loan contract level too. This is why we must enhance the system to facilitate the reconciliation and it is costly to do so for each financial institution.

Unfortunately, the investment in system development could not be paid and shared among all banks as a result of their different environments and products. The most important reason is confidentiality. We could, therefore, anticipate the big investment in system development of tax system and accounting system over the IFRS. From the interview of accounting function of many banks, the amount used for developing the system is approximately Baht 50-100 million. The current information from the Bank of Thailand shows that there are 16 Thai banks, 15 branches and one bank that is the subsidiary of foreign banks in Thailand. This means that we are going to use the money for developing the new system to comply with tax and new IAS 18 and IFRS 9 for Baht billion. It is a huge investment.

The problems could be solved by the revision of Department Instruction of Thor.Por.1/2528 and Thor.Po.155/2549 to have the interpretation of accrual basis of banking business and allow banks to use accounting standards for tax computation.

However, we need to check whether the revision will make government of Thailand lose its tax revenue as compared to the current basis or not.

To be simpler to understand the concept, we will use the step up loan as our example in the next page. Step up loan product will have table of interest rate attached to loan agreement.

For example: housing loan of Baht 1 million for 20 years term may have the following criteria

Year	Interest rate	Interest income/year
1	0%	0
2	2%	20,000
3	4%	40,000
4-5	5%	50,000
6-10	6%	60,000
11-20	9%	90,000

Total interest income year 1 =	0
Total interest income year 2 =	20,000
Total interest income year 3 =	40,000
Total interest income year 4-5 =	100,000
Total interest income year 6-10 =	300,000
Total interest income year 11-20 =	900,000
Total 20 years interest income =	1,360,000

Average interest rate = 6.8% per year in case we ignore time value of money. Income must be recorded since the first year 6.8% = 68,000 for 20 years which results in total aggregate income for 1.36 million.

Currently, tax and accounting are based on the interest rate specified on the loan contract. Therefore, in the first year we have no income as interest rate is zero. The revenue recognition under the current accounting standards is also the same as contract rate. This is corresponding to the legal right to claim to the client.

We can notice from the next page that the total amount of interest income for the loan life of 20 years is the same amount for Baht 1.36 million. The difference is only the timing difference in each year. In the example, if tax is revised to use accounting standards as tax base, tax can be collected from the interest income of Baht 68,000 since the first year whereas, under the current Revenue Code, tax cannot be colleted in the first year as the contract rate is zero.

It seems that Tax collection will be higher when compared to the current tax regulation. Do not forget that amount accrued as interest income for the first three months will have to be counted as income for tax base even the loan repayment has been default in the three consecutive months.

Comparison of interest revenue recognition between (i) the new accounting method under IFRS based on the EIR and (ii) revenue recognition using the contract rate under the current tax law

	Interest income under New IFRS (using EIR)	Interest income under Tax (using contract rate)
Total interest income year 1	68,000	0
Total interest income year 2	68,000	20,000
Total interest income year 3	68,000	40,000
Total interest income year 4	68,000	50,000
Total interest income year 5	68,000	50,000
Total interest income year 6	68,000	60,000
Total interest income year 7	68,000	60,000
Total interest income year 8	68,000	60,000
Total interest income year 9	68,000	60,000
Total interest income year 10	68,000	60,000
Total interest income year 11	68,000	90,000
Total interest income year 12	68,000	90,000
Total interest income year 13	68,000	90,000
Total interest income year 14	68,000	90,000
Total interest income year 15	68,000	90,000
Total interest income year 16	68,000	90,000
Total interest income year 17	68,000	90,000
Total interest income year 18	68,000	90,000
Total interest income year 19	68,000	90,000
Total interest income year 20	68,000	90,000
Total 20 years income	1,360,000	1,360,000

According to the new accounting standards, fee income related to loan granted such as front end fee, management fee will have to be included with interest income when calculating the effective interest rate and revenue recognition will be processed together with interest income as above. By this method, tax collection will be faster than the current method that fee income is recorded when charged to the customer.

Please note that we mention here only revenue recognition related to EIR for loan as the example to convince the Revenue Department to consider using the accounting standards as the basis CIT computation instead of the accrual basis that, currently, uses the contract rate based on legal rights to claim against customers. In fact, under the IFRS, the basis of loan provision is also changed.

4.2 Another Problem of Provision on Loan

Currently, banks record loan provision from the five layers of loan classification. The provision expense is taxable because under the Revenue Code Section 65 ter (1) (c) if the provision is calculated under the Bank of Thailand's requirement; the provision is allowed to be tax expense.

However, Bank of Thailand expects to repeal such requirement and decide to use the IFRS for loan provision. Under the IFRS, loan provision must be considered on the specific loans, item by item. For loans that cannot have specific method, provision must be estimated for loan impairments by using the collective approach from the past reliable information. The concept under the new IFRS is more conservative

The problem for CIT computation is whether or not the provision for loan loss under the new IFRS will be regarded as taxable expense. As mentioned before, provision for loan loss is currently allowed to be taxable expense if it was calculated under the Bank of Thailand's requirement. However, in case there is no table set by the Bank of Thailand when IFRS is adopted in 2013, it is still questionable that provision for loan loss under the IFRS is still taxable expense or not. If tax allows accounting standards for the tax computation, it should be clear to taxpayers that such expense would be allowed as tax expense.

This is the upcoming problems Banks will be faced with when the new accounting standards are adopted in Thailand in the next three years.

Chapter 5
Conclusion and Recommendations

5.1 Conclusion

In the first chapter, we decide to identify the problems arising from the impact of the new accounting standards in the banking business in the next three years. The first problem is the revenue recognition under the EIR method. The second one is the provision expense. The first problem is concentrated and analyzed more than the second one. Tax law uses contract rate but accounting is going to use the EIR for revenue recognition. Different methodology between tax law and accounting is creating the problem for banks in data preparation cost and time consuming.

In principle, the Revenue Code of Thailand is not different from other countries' tax legislation except that the Revenue Code of Thailand does not mainly follow the accounting standards in every aspect as the Revenue Code of the United Kingdom and the Revenue Code of the United States of America do.

From chapter 3, we found that corporate income tax base for tax payment is profit from the financial statements. There is no special accrual basis as there is in Thailand. Accounting standards are used as the tax base for CIT computation.

UK accounting standards are under IFRS which is the same as in Thailand. US GAAP is used for accounting standards to prepare the financial statements for tax base for corporate tax payment in the United States of America.

IFRS and US GAAP are under the convergence process to be the global accounting standards of the world.

The Revenue Code of Thailand has its own character such as the revenue recognition under the accrual basis pursuant to Section 65 of the Revenue Code and Department Instruction No. Thor.Por.1/2528 and Thor.Por.155/2549 Re: Guidelines on Accrual Basis for the calculation of income and expenses. Generally, the concept of accrual basis under revenue recognition in tax computation is mainly based on the accounting standards except the certain matters that the Revenue Department will specifically instruct otherwise in the Department Instruction No. Thor.Por.1/2528 and

Thor.Por.155/2549 which instructed the specific methods. In such case, these specific methods are different from the accounting standards.

From chapter 4, we know that, currently, banks and financial institutions are using the contract rate for revenue recognition for both tax calculation and accounting records. However, under the new coming IFRS in the next three years, banks have to change from the contract rate to EIR for revenue recognition which would create difficulty. The reconciliation between accounting records and tax calculation would be more complicated and must be performed at the contract level for each loan. All banks and financial institutions in Thailand will need to develop or enhance their systems to fulfill the new requirement of the revenue recognition under the EIR method instead of the contract rate and to support the reconciliation between the accounting records and tax calculation at the contract level.

Moreover, another upcoming problem is the provision on loan is still allowed to be tax expense or not after the adoption of the new IFRS. The Bank of Thailand would repeal the loan provision calculated from the loan classification because provision under the new accounting standards is prudent enough. According to the Revenue Code Section 65 ter (1) (c), provisions for loan loss is currently allowed to be taxable expense because it is calculated under the Bank of Thailand's requirement. In case tax allows accounting standards for the tax base, it should be clear to the taxpayers that such expense would be allowed as tax expense. However, it seems to be difficult to revise the Revenue Code. The Bank of Thailand may issue one notification instructing banks to provide provision according to the IFRS. This is for the evidence to help banks on tax problem.

The problems require the Revenue Department of Thailand and the Bank of Thailand to consider and find out the feasible solution. As a matter of fact, the current Thai Revenue Code does not entirely follow the accounting standards; whereas, other countries such as the United Kingdom and the United States of America do accept the accounting standards as their part of the tax legislation. The accounting standards are now during the process of the convergence to be global accounting standards of the world as mentioned before which means that accounting standards should be respect and accepted to be tax base by the Revenue Department.

The analysis in chapter 4 comes to the conclusion that by using the new accounting standards of the EIR method for revenue recognition, the Revenue Department will not lose its tax revenue as compared to the current tax method. Conversely, it should be only the timing difference. Even in some cases, tax revenue is levied faster than before. Therefore, it is harmless to follow accounting standards as other countries do. On top of this, changing to accept the accounting standards will enable the taxpayers to save their cost and time for the tax payment process which should be the basic concept for the good tax policy.

The problems could be solved by the revision of the Department Instruction of the Revenue Department to allow banks to use accounting standards as the basis for calculation of taxable profit instead of the current accrual basis under Section 65 and Department Instruction No. Thor.Por.1/2528.

5.2 Recommendations

[12]According to the four canons of taxation propounded by Adam Smith in his 1776 Wealth of Nations:

- "Equity: The tax payable should accord with ability to pay or tax capability;
- Certainty: The taxpayer should know exactly what is being taxed, how much he has to pay, and how and when he has to pay it, meaning that the law should be clear and unambiguous and the tax authorities' interpretation of it should be readily available;
- Convenience: The tax should be payable in a manner and at a time convenient to the taxpayer;
- Economy: Enforcement and collection costs should be reasonably proportionate to the receipts."

[12] International Tax Glossary, revised 3rd revision, editor Susan M. Lyons page 44.

We realize that accrual basis under tax law is questionable and is not the same concept as accounting although in the Section 65 in the Revenue Code specified the meaning of accrual concept that seems to be the accounting concept. Before the issuance of Department Instruction of Thor.Por.1/2528 Re: Guidelines on Accrual Basis for the calculation of income and expenses, the interpretation was provided by the officer from the Revenue Department and it created a lot of difficulties. At that time Accounting has not been enforced by Law until B.E.2543 and Tax would not like to use accounting concept as tax base. However, although Department Instruction has been issued for guidance, the difficulties still occur as it is uncertain whether the accounting standards are applicable in the tax computation.

Considering the upcoming problem on revenue recognition from the impact of accounting standards change as required by Federation of Accounting Professions and Bank of Thailand, taxpayers do not have certainty in tax payment. Therefore, under the tax canon of "Certainty", Revenue Code should be reviewed for the appropriateness to the current situation and the upcoming periods.

Under the tax canon of "Convenience", Revenue Code needs change so as to help taxpayer to pay tax with lowest cost and less time consumed.

If the current tax law were revised to interpret the accrual basis to follow the accounting standards for tax computation, the tax law and accounting standards would be the same. Even where the accounting standards were changed, there would be no impact on the Revenue Code since the tax base would be accordingly changed to correspond to the updated accounting standards. Taxpayers will be happy as the tax and accounting is now at the same basis. No more cost is required to reconcile between accounting record and tax payment. No more time is consumed to solve the non value-added problems. Tax payment will be ready at the same time the financial statements are prepared under the accounting standards.

Under the tax canon of "Economy", Revenue Code needs change as enforcement and collection costs will be less than the current one. We have external auditors to certify the financial statements when taxpayers file the tax returns for the corporate tax. Tax audit officers will have fewer burdens to prove the tax base and can do other work more efficiently.

Therefore, under the four canons of tax, Revenue Code should be reviewed for any improvements to facilitate taxpayers and at the same time reduce the enforcement and collection costs of the Revenue Department as well.

This is also confirmed by the corporate tax of the United Kingdom and the United States of America that is specified by chapter 3. We can notice that tax base for corporate income tax payment is based on the statutory profit. UK is based on IFRS whereby US is based on US.GAAP. We cannot see the specific accrual basis under tax as incurred in Thailand.

Therefore, to make the tax regulation simple and facilitate taxpayers as mentioned in the four canons of tax, it is recommended that the Revenue Department should revise the Department Instruction number Thor.Por.1/2528 to adopt the accrual basis in accordance with the accounting standards for the tax computation of banking business. In this regard, we have already proved that the Revenue Department will not lose its tax revenue as compared to the current tax method. Conversely, it should be only the timing difference. Even in some cases, tax revenue could be levied faster than before. Therefore, it is harmless to follow accounting standards as other countries do. On top of this, changing to accept the accounting standards will enable the taxpayers to save their cost and time for the tax computation which should be the basic concept for the good tax policy.

It is recommended that the Bank of Thailand should issue the notification instructing banks to set up loan provision according to accounting standards. It is difficult to revise the Revenue Code to allow loan provision to be a tax expense if the Bank of Thailand repealed the loan classification table.

The Differences Between the Tax Law and the Accounting Standards Including Recommendations are Summarized in the following table:

Issues	Tax Law	Accounting Standards	Recommendation
Revenue recognition	Use the contract rate for revenue recognition in tax calculation	In 2013, IFRS 9 will be applied and EIR must be used for revenue recognition in banking business.	Department Instruction No.Thor.Por.1/2528, Clause 2 should be revised by adopting accrual basis in the light of accounting standards for tax computation.
Provision on loan	Only provision on loan is set up in accordance with loan classifications issued by the Bank of Thailand would be a tax expense.	In 2013, IFRS 9 will be applied and banks need to set up provision on loans in accordance with the accounting standards, not classifications of loan.	Due to section 65 ter (1)(c), The Bank of Thailand should issue the notification to instruct banks to apply the accounting standards in setting up the loan provision so that the provision expense is treated as a tax expense under the tax law.

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Appendices

Appendix A

The Corporation Tax Act 2010 -UK

The Corporation Tax Act 2010 -UK

[1]PART 2

CALCULATION OF LIABILITY IN RESPECT OF PROFITS

CHAPTER 1

INTRODUCTION

2 Overview of Part

(1) This Part contains provisions that relate to the calculation of the corporation tax chargeable on a company's profits of an accounting period.

(2) Chapter 2 is about the rates at which corporation tax on profits is charged.

(3) Chapter 3 is about ascertaining the amount of a company's profits of an accounting period to which the rates of corporation tax applicable to the company are applied.

(4) Chapter 4 makes provision about the currency in which a company must calculate and express its profits for corporation tax purposes.

(5) For provision about the calculation of the corporation tax payable for an accounting period see paragraph 8 of Schedule 18 to FA 1998.

CHAPTER 2

RATES AT WHICH CORPORATION TAX ON PROFITS CHARGED

3 Corporation tax rates

(1) Corporation tax is charged at the rate set by Parliament for the financial year ("the main rate").

(2) Section 18 provides for tax to be charged at the small profits rate instead of the main rate in certain cases.

(3) In this Act "the small profits rate" means a rate that is

(a) Lower than the main rate, and

(b) Set by Parliament as the small profits rate.

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[1] The Corporation Tax Act 2010, at http://www.legislation.gov.uk (last visited 8 October 2010).

CHAPTER 3

CALCULATION OF AMOUNT TO WHICH RATES APPLIED

4 Amount of profits to which corporation tax rates applied

(1) In the calculation under paragraph 8(1) of Schedule 18 to FA 1998 of the amount of corporation tax payable for an accounting period of a company, the Corporation Tax Act 2010 (c. **4**)

Part 2 Calculation of liability in respect of profits

Chapter 3 Calculation of amount to which rates applied 4 first step is to apply the rate or rates of corporation tax applicable to the profits of the company of the period on which tax is chargeable.

(2) The profits of a company of an accounting period on which corporation tax is chargeable (in this Act referred to as the company's taxable total profits of the period) are found as follows

Step 1

Find the company's total profits of the period (see subsection (3)).

Step 2

Deduct from the result of Step 1 any amounts which can be relieved against the company's total profits of the period.

(3) To find a company's total profits of an accounting period take the following steps.

Step 1

Find the amount in respect of which the company is chargeable for the period under the charge to corporation tax on income after any reduction required to give effect to relief from tax.

Step 2

Add to the result of Step 1 any amount to be included in respect of chargeable gains in the company's total profits of the accounting period (see section 8 of TCGA 1992) after any reduction required to give effect to relief from tax.

(4) Subsections (2) and (3) are subject to the provisions of the Corporation Tax Acts.

1120 "Banks"

(1) This section has effect for the purposes of the provisions of the Corporation Tax Acts which apply this section.

(2) "Banks" means

(a) The Banks of England,

(b) A person who has permission under Part 4 of FISMA 2000 to accept deposits (but see subsection (3) for exclusions),

(c) An EEA firm of the kind mentioned in paragraph 5(b) of Schedule 3 to FISMA 2000 which has permission under paragraph 15 of that Schedule to accept deposits (as a result of qualifying for authorization under paragraph 12(1) of that Schedule),

(d) The European Investment Banks, and

(e) An international organization designated as a banks for the purposes of this section by an order made by the Treasury.

Corporation Tax Act 2010 (c. 4)

Part 24 — Corporation Tax Acts definitions etc

Chapter 1 — Definitions

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(3) The reference to a person who has permission under Part 4 of FISMA 2000 to accept deposits does not include—

(a) A building society,

(b) A society registered within the meaning of the Friendly Societies Act 1974 or incorporated under the Friendly Societies Act 1992,

(c) A society registered as a credit union under the Industrial and Provident Societies Act 1965 or the Credit Unions (Northern Ireland) Order 1985 (S.I. 1985/1205 (N.I. 12)), or

(d) An insurance company within the meaning of section 275 of FA 2004.

(c) A society registered as a credit union under the Industrial and Provident Societies Act 1965 or the Credit Unions (Northern Ireland) Order 1985 (S.I. 1985/1205 (N.I. 12)), or

(d) An insurance company within the meaning of section 275 of FA 2004.

(4) The Treasury may designate an international organization for the purposes of this section only if the United Kingdom is a member of the organization.

(5) An order under subsection (2)(e) may include provision for a designation to have effect only in relation to the application of this section by a provision specified in the order.

1121 "Company"

(1) In the Corporation Tax Acts "company" means any body corporate or unincorporated association, but does not include a partnership, a local authority or a local authority association.

(2) Subsection (1) needs to be read with section 617 (under which the trustees of an authorized unit trust are treated for certain purposes as a UK resident company).

1127 "Generally accepted accounting practice" and related expressions

(1) In the Corporation Tax Acts "generally accepted accounting practice" means UK generally accepted accounting practice. This is subject to subsection (3).

(2) In the Corporation Tax Acts "UK generally accepted accounting practice"

(a) Means generally accepted accounting practice in relation to accounts of UK companies (other than IAS accounts) that are intended to give a true and fair view, and

(b) Has the same meaning in relation to

(i) Individuals,

(ii) Entities other than companies, and

(iii) Companies that are not UK companies, as it has in relation to UK companies.

(5) In the Corporation Tax Acts "international accounting standards" has the same meaning as in Regulation (EC) No 1606/2002 of the European Parliament and the Council of 19 July 2002 on the application of international accounting standards.

(6) If the European Commission has in accordance with that Regulation adopted an international accounting standard with modifications, then as regards matters covered by that standard"

Appendix B
US CODE

US CODE

The United States of America

[2]TITLE 26 > Subtitle A > CHAPTER 1 > Subchapter A > PART II
PART II—TAX ON CORPORATIONS

§ 11. Tax imposed

§ 12. Cross references relating to tax on corporations

§ 441. Period for computation of taxable income

(a) Computation of taxable income
Taxable income shall be computed on the basis of the taxpayer's taxable year.
(b) Taxable year
For purposes of this subtitle, the term "taxable year" means
(1) The taxpayer's annual accounting period, if it is a calendar year or a fiscal year;
(2) The calendar year, if subsection (g) applies;
(3) The period for which the return is made, if a return is made for a period of less than 12 months; or
(4) In the case of a DISC filing a return for a period of at least 12 months, the period determined under subsection (h).
(c) Annual accounting period
For purposes of this subtitle, the term "annual accounting period" means the annual period on the basis of which the taxpayer regularly computes his income in keeping his books.
(d) Calendar year
For purposes of this subtitle, the term "calendar year" means a period of 12 months ending on December 31.

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[2] US Code, at www.uscode.house.gov Title 26 of the US Code (last visited 6 October 2010).

(e) Fiscal year

For purposes of this subtitle, the term "fiscal year" means a period of 12 months ending on the last day of any month other than December. In the case of any taxpayer who has made the election provided by subsection (f) the term means the annual period (varying from 52 to 53 weeks) so elected.

(f) Election of year consisting of 52–53 weeks

(1) General rule

A taxpayer who, in keeping his books, regularly computes his income on the basis of an annual period which varies from 52 to 53 weeks and ends always on the same day of the week and ends always

(A) On whatever date such same day of the week last occurs in a calendar month, or

(B) On whatever date such same day of the week falls which is nearest to the last day of a calendar month, may (in accordance with the regulations prescribed under paragraph (3)) elect to compute his taxable income for purposes of this subtitle on the basis of such annual period. This paragraph shall apply to taxable years ending after the date of the enactment of this title.

(2) Special rules for 52–53-week year

(A) Effective dates

In any case in which the effective date or the applicability of any provision of this title is expressed in terms of taxable years beginning, including, or ending with reference to a specified date which is the first or last day of a month, a taxable year described in paragraph (1) shall (except for purposes of the computation under section 15) be treated

(i) as beginning with the first day of the calendar month beginning nearest to the first day of such taxable year, or

(ii) as ending with the last day of the calendar month ending nearest to the last day of such taxable year, as the case may be.

(B) Change in accounting period

In the case of a change from or to a taxable year described in paragraph (1)

(i) if such change results in a short period (within the meaning of section 443) of 359 days or more, or of less than 7 days, section 443 (b) (relating to alternative tax computation) shall not apply;

(ii) if such change results in a short period of less than 7 days, such short period shall, for purposes of this subtitle, be added to and deemed a part of the following taxable year; and

(iii) if such change results in a short period to which subsection (b) of section 443 applies, the taxable income for such short period shall be placed on an annual basis for purposes of such subsection by multiplying the gross income for such short period (minus the deductions allowed by this chapter for the short period, but only the adjusted amount of the deductions for personal exemptions as described in section 443 (c)) by 365, by dividing the result by the number of days in the short period, and the tax shall be the same part of the tax computed on the annual basis as the number of days in the short period is of 365 days.

(3) Special rule for partnerships, S corporations, and personal service corporations

The Secretary may by regulation provide terms and conditions for the application of this subsection to a partnership, S corporation, or personal service corporation (within the meaning of section 441 (i)(2)).

(4) Regulations

The Secretary shall prescribe such regulations as he deems necessary for the application of this subsection.

(g) No books kept; no accounting period

Except as provided in section 443 (relating to returns for periods of less than 12 months), the taxpayer's taxable year shall be the calendar year if—

(1) The taxpayer keeps no books;

(2) The taxpayer does not have an annual accounting period; or

(3) The taxpayer has an annual accounting period, but such period does not qualify as a fiscal year.

§ 446. General rule for methods of accounting

(a) General rule

Taxable income shall be computed under the method of accounting on the basis of which the taxpayer regularly computes his income in keeping his books.

(b) Exceptions

If no method of accounting has been regularly used by the taxpayer, or if the method used does not clearly reflect income, the computation of taxable income shall be made under such method as, in the opinion of the Secretary, does clearly reflect income.

(c) Permissible methods

Subject to the provisions of subsections (a) and (b), a taxpayer may compute taxable income under any of the following methods of accounting—

(1) The cash receipts and disbursements method;

(2) An accrual method;

(3) Any other method permitted by this chapter; or

(4) Any combination of the foregoing methods permitted under regulations prescribed by the Secretary.

(d) Taxpayer engaged in more than one business

A taxpayer engaged in more than one trade or business may, in computing taxable income, use a different method of accounting for each trade or business.

(e) Requirement respecting change of accounting method

Except as otherwise expressly provided in this chapter, a taxpayer who changes the method of accounting on the basis of which he regularly computes his income in keeping his books shall, before computing his taxable income under the new method, secure the consent of the Secretary.

(f) Failure to request change of method of accounting

If the taxpayer does not file with the Secretary a request to change the method of accounting, the absence of the consent of the Secretary to a change in the method of accounting shall not be taken into account—

(1) To prevent the imposition of any penalty, or the addition of any amount to tax, under this title, or

(2) To diminish the amount of such penalty or addition to tax.

§ 448. Limitation on use of cash method of accounting

(a) General rule

Except as otherwise provided in this section, in the case of a—

(1) C Corporation,

(2) Partnership which has a C corporation as a partner, or

(3) Tax shelter, taxable income shall not be computed under the cash receipts and disbursements method of accounting.

(b) Exceptions

(1) Farming business

Paragraphs (1) and (2) of subsection (a) shall not apply to any farming business.

(2) Qualified personal service corporations

Paragraphs (1) and (2) of subsection (a) shall not apply to a qualified personal service corporation, and such a corporation shall be treated as an individual for purposes of determining whether paragraph (2) of subsection (a) applies to any partnership.

(3) Entities with gross receipts of not more than $5,000,000

Paragraphs (1) and (2) of subsection (a) shall not apply to any corporation or partnership for any taxable year if, for all prior taxable years beginning after December 31, 1985, such entity (or any predecessor) met the $5,000,000 gross rceeipts test of subsection (c).

(c) $5,000,000 gross receipts test

For purposes of this section—

(1) In general

A corporation or partnership meets the $5,000,000 gross receipts test of this subsection for any prior taxable year if the average annual gross receipts of such entity for the 3-taxable-year period ending with such prior taxable year do not exceed $5,000,000.

(2) Aggregation rules

All persons treated as a single employer under subsection (a) or (b) of section 52 or subsection (m) or (o) of section 414 shall be treated as one person for purposes of paragraph (1).

(3) Special rules

For purposes of this subsection

(A) Not in existence for entire 3-year period

If the entity was not in existence for the entire 3-year period referred to in paragraph (1), such paragraph shall be applied on the basis of the period during which such entity (or trade or business) was in existence.

(B) Short taxable years

Gross receipts for any taxable year of less than 12 months shall be annualized by multiplying the gross receipts for the short period by 12 and dividing the result by the number of months in the short period.

(C) Gross receipts

Gross receipts for any taxable year shall be reduced by returns and allowances made during such year.

(D) Treatment of predecessors

Any reference in this subsection to an entity shall include a reference to any predecessor of such entity.

§ 581. Definition of banks

For purposes of sections 582 and 584, the term "banks" means a banks or trust company incorporated and doing business under the laws of the United States (including laws relating to the District of Columbia) or of any State, a substantial part of the business of which consists of receiving deposits and making loans and discounts, or of exercising fiduciary powers similar to those permitted to national banks under authority of the Comptroller of the Currency, and which is subject by law to supervision and examination by State, Territorial, or Federal authority having supervision over bank sing institutions. Such term also means a domestic building and loan association.

Appendix C

Revenue Recognition under IFRS

What is required in the new accounting standards?

- The effective interest method is a method of calculating amortisation using the effective interest rate of **a financial asset or liability**

- The effective interest rate is the rate that exactly **discounts** the estimated stream of **future cash payments/receipts** through the **expected life** of the financial instrument, to arrive at a present value that equals the initial cost of the financial instrument.

- Effective interest rate will differ from the contractual interest rate when there are:
    - transaction fees (definition to be consistent with IAS 18);
    - premium or discount; and / or
    - stepped up/down interest rate / margin.

- EIR of instruments that have call, put, pre-payment or term extension options should be determined based on expected life.

- IAS 39 requires: "all fees and points paid or received between parties to contract that are an integral part of the effective interest rate".

- What is it included in the EIR? (based on IAS 18 Appendix on Financial service fees)
    - Front-end fees (up-front fees for corporate loans and loan registration fees for home loans)
    - Transactions based fees (fees from cash advance from credit card)
    - Revolving credit facilities fee (e.g. annual credit card fees, O/D annual fee)
    - Prepayment fee (Depending on the conditions, if prepayment fee is compensate the lower market yield, it must be taken into account EIR calculation)
    - Late Payment fees.

- Service fee income-credit documentary
- Arrangement/management fees

- However, "Commitment penalty fee" is excluded from EIR because the banks will charge only borrowers do not withdrawn loans, so it does not affect the yield to the banks.

- Effective rate will differ from contractual interest rate due to:
    - Fees that are integral to the effective interest rate
    - Premium or discount
    - Stepped up/down/interest rate/margin

- Integral fees
    - Origination fees received by the entity relating to the creation or acquisition of a financial asset.
    - Includes compensation for activities such as evaluating the borrower's financial condition, evaluating guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction.
    - If it is possible that the entity will enter into a specific lending arrangement, the commitment fee received is regarded as compensation for an ongoing involvement with the acquisition of a financial instrument.

[3]According to the IAS 18, revenue recognition under business of service rendering mentioned on the financial service fees below:
"The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Therefore, it is necessary to

[3] IFRS, International Accounting Standard 18, at http://www.ifrs.org (last visited 15 July 2010).

distinguish between fees that are an integral part of the effective interest rate of a financial instrument, fees that are earned as services are provided, and fees that are earned on the execution of a significant act.

1. **Fees that are an integral part of the effective interest rate of a financial instrument.**

   Such fees are generally treated as an adjustment to the effective interest rate. However, the financial instrument is measured at fair value with the change in fair value recognized in profit or loss; the fees are recognized as revenue when the instrument is initially recognized.

   - **Origination fees received by the entity relating to the creation or acquisition of a financial asset other than one that under IFRS 9 is measured at fair value through profit or loss.**

     Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involving with the resulting financial instrument and, together with the resulting the related transaction costs (as defined in IAS39), are deferred and recognized as an adjustment to the effective interest rate.

   - **Commitment fees received by entity to originate a loan when the loan commitment is outside the scope of IAS 39**

     If it is probable that the entity will enter into a specific lending arrangement and the loan commitment is not within the scope of IAS 39, the commitment fee received is regarded as compensation for an ongoing involvement with the acquisition of a financial instrument and, together with the related transaction costs (as defined in IAS39), are deferred and recognized as an adjustment to the effective interest rate. If the commitment expires without the entity making the loan, the fee is recognized as revenue on expiry. Loan commitments that are within the scope of IAS 39 are accounted for as derivatives and measured at fair value.

- **Origination fees received on issuing financial liabilities measured at amortized cost.**

  These fees are an integral part of generating an involvement with a financial liability. When a financial liability is not classified as "at fair value through profit and loss", the origination fees received are included, with the related transaction costs (as defined in IAS39), incurred, in the initial carrying amount of the financial liability and recognized as an adjustment to the effective interest rate. An entity distinguishes fees and costs that are an integral part of the effective interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services.

2. Fees earned as services provided

- **Fees charged for servicing a loan.**

  Fees charged by an entity for servicing a loan are recognized as revenue as the services are provided.

- **Commitment fees to originate a loan when the loan commitment is outside the scope of IAS 39**

  If it is unlikely that a specific lending arrangement will be entered into and the loan commitment is outside the scope of IAS 39, the commitment fee is recognized as revenue on a time proportion basis over the commitment period. Loan commitments that are within the scope of IAS 39 are accounted for as derivatives and measured at fair value.

- **Investment management fees**

  Fees charged for managing investments are recognized as revenue as the services are provided.

  Incremental costs that are directly attributable to securing an investment management contract are recognized as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered. As in IAS 39, an incremental cost is one that would not have been incurred if the entity had not secured the investment management contract. The asset represents the entity's contractual right to benefit from providing investment management services, and is amortized as the entity recognizes the related revenue. If the entity has a portfolio of investment management contracts, it may asses their recoverability on a portfolio basis.

Some financial services contracts involve both the origination of one or more financial instruments and the provision of investment management services. An example is a long-term monthly saving contract linked to the management of a pool of equity securities. The provider of the contract distinguishes the transaction costs relating to the origination of the financial instrument from the cost of securing the right to provide investment management services.

3. Fees that are earned on the execution of a significant act

The fees are recognized as revenue when the significant act has been completed, as in the example below.

- **Commission on the allotment of shares to a client**

  The commission is recognized as revenue when the shares have been allotted.

- **Placement fees arranging a loan between a borrower and an investor**

  The fee is recognized as revenue when the loan has been arranged.

- **Loan syndication fees**

  A syndication fee received by an entity that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants) is compensation for the service of syndication. Such a fee is recognized as revenue when the syndication has been completed."

Appendix D
IFRS for Provisions

What is required by IFRS on [4]Impairment and Uncollectibility of financial assets?

Introduction

Loss shall be recognized only when they are incurred (i.e. deterioration in the credit quality of an asset or a group of assets after their initial recognition). The Board decided that impairment looses should be recognized only if they have been incurred. In addition, the losses must have reliably measurable effect on the present value of estimated future cash flows and be supported by current observable data.

Assets assessed individually and found not to be impaired

The Board noted that loans and receivables and some other financial assets, when reviewed for impairment and determined not to be impaired should subsequently be included in the assessment of impairment for a group of financial assets with similar characteristics. Experience may indicate that some of loans are impaired even though an individual assessment may not reveal this. The amount of loss in a large population of items can be estimated on the basis of experience and other factors by weighing all possible outcomes by their associated probabilities.

Under the IAS39, impairment of loans is measured on the basis of the present value of the estimated cash flows. Estimations of future cash slows may change because of economic factors affecting a group of loans, such as country and industry factors, even if there is no objective evidence of impairment of an individual loan.

Accepted accounting practice in some countries is to establish a provision to cover impairment losses that, although, not specifically identified to individual assets, are known from experience to exist in a loan portfolio as of the balance sheet date.

IAS39 requires impairment to be measured on a present value basis using the original effective interest rate.

Assets assessed individually and found to be impaired

The Board decided that assets that are individually assessed for impairment and identified as impaired should be excluded from a portfolio assessment of impairment. This is the collective approach or evaluation that will identify losses that have been incurred on a group basis as of the balance sheet date, but cannot yet be identified

[4] IFRS, Amendments to IAS 39, at http://www.ifrs.org (last visited 15 July 2010).

with individual assets. As soon as information is available to identify losses on individually impaired assets, those assets are removed from the group that is collectively assessed for impairment.

Grouping of assets that are collectively evaluated for impairment

The Board decided that for the purpose of assessing impairment on a portfolio basis, the method employed for grouping assets should, as a minimum, ensure that individual assets are allocated to groups of assets that share similar credit risk characteristics. It also decided to clarify that when assets that are assessed individually and found not to be impaired are grouped with assets similar credit risk characteristics that are assessed only on a collective basis, the loss probabilities and other loss statistics differ between the two types of assets with the result that a different amount of impairment may be required.

Estimates of future cash flows in groups

The Board decided that to promote consistency in the estimation of impairment on groups of financial assets that are collectively evaluated for impairment. It identified the following elements as critical to an adequate process:

- Historical loss experience should provide the basis for estimating future cash flows in a group of financial assets that are collectively assessed for impairments.
- Entities that have no loss experience of their own or insufficient experience should use peer group experience for comparable groups of financial assets.
- Historical loss experience should be adjusted, on the basis of observable data, to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.
- Changes in estimates of future cash flows should be directionally consistent with changes in underlying observable data.
- Estimation methods should be adjusted to reduce differences between estimates future cash flows and actual cash flows.

Appendix E

Bank of Thailand's Guideline for Revenue Recognition

[5]Notification of the Bank of Thailand

No. SorNorSor. 67/2551

RE: Guidelines on Accounting of Financial Institutions

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1. Rationale

Normally, financial institutions, like other juristic persons, shall conduct accounting, in accordance with the Accounting Standards set out by the Federation of Accounting Professions. However, since financial institution's business has a specific characteristic which is different from other businesses, some types of transactions may not be covered by the Accounting Standards or the existing accounting standards may not be clearly defined for a particular circumstance which requires interpretation or certain Accounting Standards can be applied in many ways. As a consequence of such facts, it may be unclear and causes each financial institution to apply it differently. Thus, the Bank of Thailand deems that it is necessary to set out accounting guidelines for the areas that cause such problems so that all financial institutions shall apply them for the same standard in addition to the compliance with the accounting standards stipulated by the Federation of Accounting Professions in normal cases. The guidelines set out by the Bank of Thailand shall be in line with the principle and framework of the Accounting Standards stipulated by the Federation of Accounting Professions or in the case where the Federation of Accounting Professions has not set out a standard for such matter, the Bank of Thailand shall use the International Financial Reporting Standard (IFRS) as a reference. This Notification is issued in accordance with the Financial Institutions Businesses Act B.E. 2551 and as a compilation of all the Bank of Thailand's Notifications and Circulars regarding accounting guidelines. The essence of the guideline has not been changed from the existing one, except for Section 6 Re: Accounting for Bill Trading which has been enhanced in accordance with the accounting standard. In addition, due to the fact that the existing accounting in some areas are different among commercial banks, finance companies and credit fancier companies, the Bank of Thailand has thereby introduced accounting practices for all

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[5] Bank of Thailand, Regulation of BOT, at http://www.bot.or.th (last visited 11 October 2010).

types of financial institutions to be in the same standard according to the spirit of the Financial Institutions Businesses Act B.E. 2551. In case where the transactions incurred before this notification is enforced and the financial institutions have already complied with the existed regulation at such time, financial institutions may follow the existed guideline for such transactions until the contracts are expired.

This Notification shall apply to all financial institutions under the Financial Institutions Businesses Act.

Section 5

Recognition of Loan Interest Income or Hire-Purchase Installment

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1. Recording as income

1.1 In preparing books of account and financial statement, financial institutions shall apply accrual basis for every month end.

.2 In case the debtor has overdue interest or installment less than 3 months, financial institutions may recognize the repayment amount as income.

1.3 Partial interest received shall be paid to the accrued interest income which has already recognized as income before paying to the accrued interest income which has not been recorded as income.

1.4 Financial institutions may recognize income based on accrual basis for debtor who has been suspended from revenue recognition as stated in Clause 3 only when such debtor has repaid the principal and interest which have been already recognized and have not yet recorded as income or the entire amount of unpaid installment.

2. Accounting for hire-purchase income

Financial institutions shall record hire-purchase income in accordance with the calculation stipulated on the relevant account standards.

3. Suspension of revenue recognition

The suspension shall be applied to the following cases:

3.1 Borrower or debtor, as a result of a guarantee or acceptance, giving aval or negotiation of bills, is unable to pay interest for more than 3 consecutive months, starting from the contractual maturity date.

3.2 Overdraft debtor who does not have credit line or the credit line has been canceled or the debt amount exceeds credit line and is unable to pay interest for more than 3 consecutive months starting from the date that debtor is unable to pay interest or only partial of interest has been paid but the overdue interest is still exceeding 3 months.

3.3 Hire-purchase debtor who is unable to make an installment for more than 3 consecutive months starting from the due date on the contract.

3.4 Borrower or debtor, as a result of a guarantee or acceptance, giving avail or negotiation of bills, or overdraft debtor who has overdue interest payment or hire-purchase debtor who has overdue installment in a period not exceed 3 months starting from the contractual maturity date, however, such debtor is classified as loss, doubtful of loss or doubtful in accordance with the Notification of the Bank of Thailand Re: Guideline on Classification and Provision of Financial Institutions.

3.5 Financial institutions shall reverse the transaction of interest income from loan, overdraft, installment of hire-purchase of debtor in which financial institutions has already recorded as income under Clauses 1 and 2 if such debtor has overdue payment or such debtor falls under any conditions stated in Clauses 3.1 - 3.4.

Example of timeframe calculation for recognizing accrued interest receivable as income and reversing such transaction

1. Case of Borrower with monthly interest payment schedule

Debtor signs contract on 1 January 2007. The first interest payment is scheduled to be paid on 31 January 2007. If the debtor does not make interest payment as scheduled, such date shall be consider the starting date of the overdue payment. Financial institutions may continue to record accrued interest receivable as income for the next 3 month until 30 April 2007. Then, starting from 1 May 2007 onwards, financial institutions shall stop recognizing such accrued interest receivable as income and shall reverse the previous transactions from the accounting as well.

2. Case of Borrower with 6-month interest payment schedule

Debtor signs contract on 1 January 2007. The first interest payment is scheduled to be paid on 30 June 2007. If the debtor does not make interest payment as scheduled, such date shall be considered the starting date of the overdue payment.

Financial institutions may continue to record accrued interest receivable as income for the next 3 month until 30 September 2007 Then, starting from 1 October 2007 onwards, financial institutions shall stop recognizing such accrued interest receivable as income and shall reverse the previous transactions from the accounting as well.