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LEADING THE WAY

PWC THAILAND

Now we are just over halfway through the year, it's that time again for filing half-year corporate income tax returns. This must be done by the end of August and applies to companies whose accounting period ends on Dec 31.

Most companies do not have any difficulty in filing their returns on time, but it's not always easy for those companies that must estimate their net profit or loss arising from their business operations. This applies to all companies except banks and certain finance firms under the law and companies listed on the Stock Exchange of Thailand that can file their returns based on actual profit for the half-year.

This article highlights five points to help a company calculate its half-year corporate income tax when it is required to estimate its net profit or loss arising during the full 12 months of its accounting period.

Section 67 bis of the Revenue Code states that a company must file a half-year tax return (form *Phor. Ngor. Dor.* 51) within two months from the last day of the first six months of the accounting period and pay tax on half the estimated net profit for the full accounting period.

Under Section 67 ter, if a company fails to file a return and pay tax or without a reasonable excuse has underestimated the net profit by more than 25% of the actual net profit earned during the accounting period, it will have to pay a surcharge of 20% of the tax shortfall.

On the other hand, a company can also be affected by overestimating its net profit, which may result in an overpayment of tax at the year-end. This means the company will need to request a tax refund, which must be done within three years from the date of filing the return.

The refund process is time-consuming and never easy. During the investigation, a Revenue Department officer will request to see documents the company will need to prepare. It will also be the company's responsibility to explain and reply to questions from the officer. Almost certainly, an adjustment to the amount of the claim will be the result of the investigation, so it's advisable to try and accurately estimate the net profit.

There are five points to consider when preparing the half-year corporate income tax computation:

1. During the two-month period before the deadline for filing form *Phor. Ngor. Dor.* 51, the company will need to compile the required data. This will consist of:

a) actual data — quite straightforward. The company can use the figures for revenue and expenses for the first six or seven months, depending on the availability of the information.

b) forecast data — less straightforward. The company will need to consider internal factors such as information from the same period in the previous year while accurately forecasting revenue and expenses for the remaining months of the accounting period. It will also need to consider external factors such as its business cycle and economic trends.

2. Tax adjustments — if the company incurs expenses that are disallowed for tax deduction during the first six months of the accounting period and estimates them for the remaining period, these will be added back in the half-year tax computation. Otherwise, it may result in underestimating the net profit for the accounting period.

3. Using the correct corporate income tax rates — things to consider include the company's type of business and any tax rate reductions that have been introduced during the accounting period.

4. The amount of withholding tax credits incurred from the first day until the last day of the first six months of the accounting period. The company must have all the withholding tax certificates available for reference or for a tax investigation process.

5. Compare the estimated half-year tax liability for the current year with half the liability for the previous full year. Then if the company pays at least half of the previous year's corporate income tax liability, it will be helpful, as according to the Revenue Department's Instruction *Por.* 50/2537, it will be deemed there is a reasonable excuse for any underestimated net profit. Of course, this practice may not be practical for a company that suffered a loss in the previous year or had special transactions or fluctuations in its profit and paid a significant amount of tax, as it may end up paying too much half-year tax and will need to request a refund at the end of the current year.

After having filed the half-year tax return, if the company discovers the estimated net profit for the current year is lower than net profit by 25% or more, and it does not have a reasonable excuse for the underestimation, the company may consider refiling the half-year return before filing the full-year return. This will incur a surcharge of 1.5% per month on the amount of the tax shortfall.

Companies should take these important points into consideration to reduce the risk of tax exposure to the surcharge to be paid as a result of underestimating the net profit when preparing the half-year tax return.

Thirapa Glinsukon is a director and Cheeranun Naksomsong a manager in the tax and legal services practice at PwC Thailand. We welcome your comments at leadingtheway@th.pwc.com