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[Business > Finance](#)

LEADING THE WAY

Tax reform will mean new investigations

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So why is there this hefty shortfall? We have seen a cut in corporate income tax from 30% to 20%, lower VAT collection on imported goods and a reduction in personal income tax.

And the reform of Thailand's political, social and legal systems is costly. Even planning for reform, not just implementation, needs funding.

The Revenue Department's revenue target for the fiscal year 2015 is nearly 2 trillion baht, up nearly 4% from the 2014 target. This appears to be in line with the new government's direction, as public spending is expected to increase. However, tax collection of this size would certainly be a challenge for the department.

There has been talk about tax reforms aimed at bridging income disparities while increasing and protecting the government's revenue. This includes introducing new taxes, such as a land tax and inheritance tax, and improvements to the current system including increasing the VAT rate.

The government wants to see measures to prevent tax avoidance in cross-border transactions, such as thin capitalisation rules. While these policies should result in increased revenue, it's questionable whether they can be introduced in time to have any effect in 2015.

So what is the Revenue Department going to do to achieve its collection target? Simple – stepping up its game in tax audits. Although the standard tax investigation system has been in place for years, new techniques are being applied by revenue officers to improve tax collection.

One example is the denial of bundled sales. When an operator sells complementary goods, it sells one with a negative margin so that another can be sold with an exceptionally high margin to get an overall profit. Although this is a common pricing strategy, revenue officers may attempt to uplift the price of goods with a negative margin if they are not satisfied with the supporting documents.

Another method is increasing scrutiny of overseas payments to see whether they could be considered royalties. Royalties paid to a foreign company that does not conduct any business in Thailand is subject to withholding tax, while service fees that qualify as business profits may be exempt from tax by virtue of a double tax treaty.

Another lucrative area for the Revenue Department is transfer pricing. Revenue officers are trying to make secondary adjustments. When officers see that a taxpayer purchases goods from a related party at a price above the market price, or sells goods below the market price, they will make a primary adjustment of the price to the market price. Then they will deem that the difference between the transfer price and the market price is a dividend and will impose 10% withholding tax as a secondary adjustment.

In an effort to ensure that the department's audit teams meet their tax collection targets, companies that have undergone tax audits may well be revisited, regardless of whether tax assessments had been made in the previous audits. This is to prevent taxpayers from getting out of line.

Companies hire security guards to protect their assets and put in place methods to control costs and manage business risks, but does your company have any system to manage your tax risks? If yes, is it good enough to withstand these impending challenges from the Revenue Department?

This topic will be covered in PwC's 16th annual conference, titled "Maximise Shareholder Value Through Effective Tax Planning 2015", on Thursday at the Shangri-La Hotel, Bangkok.

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