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May 2022

Technical update

I. Tax

Corporate income tax exemption for benefits received for government projects

As approved by the Cabinet on 24 January 2022, Royal Decree No. 747 on providing corporate income tax exemptions for a company or legal partnership receiving benefits for government projects in order to mitigate the impact of the COVID-19 outbreak was published in the Royal Gazette on 24 May 2022.

Under the Royal Decree, the following benefits shall be exempt from corporate income tax:

1. Compensation received under the employer and insurer's compensation program set out in Section 33 of the 1990 Social Security Act for businesses affected by government measures in the most restrictive and restrictive areas.
2. Subsidies received under the project to promote and maintain the level of employment in SMEs, provided that the company or legal partnership does not claim a deduction for expenses paid from such subsidies in its corporate income tax calculation.

The corporate income tax exemption will apply for the accounting period in which the above benefits are received.

It should be noted that, for the benefit listed in point 2 above, while a tax exemption is provided for the benefit, a tax deduction is not allowed for expenses paid from such a benefit.

An example given in a recent webinar held by the Revenue Department regarding this issue is set out below:

	Thai baht
Income derived from business	1,000,000
Compensation under the employer and insurer's compensation program	50,000
Subsidy to promote and maintain employment in SMEs	40,000
Total income	1,090,000
Deduction: Expenses for conducting business	(50,000)
Net profit for accounting purposes	**1,040,000**
Tax adjustment:	
Deduction: • Compensation under the employer and insurer's compensation program • Subsidy to promote and maintain employment in SMEs	 (50,000) (40,000)
Add back: • Expense paid from subsidy to promote and maintain employment in SMEs	 40,000
Net profit for tax purposes	**990,000**

Based on the example of the Revenue Department, it appears that the net tax benefit of subsidies received under the project to promote and maintain the level of employment in SMEs (point 2 above) is nil.

However, there are no rules or regulations issued by the Revenue Department to clarify which expenses are to be considered paid from the subsidies set out in point 2 above.

II. Legal

Special Long-Term Residence visa

The Cabinet passed a resolution on 10 May 2022 regarding the criteria for a special long-term residence visa for certain types of foreigners. The goal is to entice up to 1 million wealthy foreigners and those with high levels of expertise to stay or work in Thailand. Those criteria include several incentives, including the following:

Incentives

- Ten-year visa;
- Exemption from requirement to hire 4 Thais for each expatriate employee;

- Requirement to report stay in Thailand every 90 days changed to reporting once a year;-
- Exemption from applying re-entry permit;
- Dependant visas obtainable for family members;
- A 17% flat tax rate for employees working in targeted industries in the Eastern Economic Corridor (EEC) and for highly skilled professionals;
- Digital work permit obtainable; and
- Ability to use the FastTrack privilege at airports.

The target group includes the following types of people:

Target group	Criteria
Wealthy foreigners	The applicant must have assets of at least USD 1 million. The applicant must have had personal income of at least USD 80,000 a year for the past two years. The applicant must invest at least USD 500,000 in Thai government bonds or real estate. The applicant must have health insurance which covers medical expenses in Thailand of not less than USD 50,000, and which covers a period of at least 10 months from the application date.
Foreign retirees (wealthy pensioners)	The applicant must be over 50 years old.- The applicant must have personal income of at least USD 40,000 a year or a pension of at least USD 80,000 a year. The applicant must have a balance of at least USD 100,000 in a Thai bank account or a bank account abroad for at least 12 months before the application date. The applicant must invest at least USD 250,000 in Thai government bonds or real estate The applicant must have health insurance which covers medical expenses in Thailand of not less than USD 50,000, and which covers a period of at least 10 months from the application date.
Foreign professionals working in Thailand	The applicant must have an employment agreement with the company abroad. The company must be either: • a listed company; or • a limited company that has been in business for over 3 years and has had total income of at least USD 150 million over three years prior to the application date.

Target group	Criteria
Foreign professionals working in Thailand	The applicant must have had personal income of at least USD 80,000 a year for the past two years, or income of at least USD 40,000 a year if having a master's degree or higher, or if holding intellectual property or receiving Series A funding.
Highly skilled foreign professionals	The applicant must have at least five years of work experience in a target industry. The applicant must have proof of work experience in certain target industries for at least five of the last ten years before the application date (except for those who come to work in a government institution of higher education or a government research institute or a state specialized training institute or a government agency, or who have a doctoral degree or the equivalent). The applicant must have proof of average personal income of at least USD 80,000 a year for the two years prior to the application date.

For applicants requesting dependant visas (such as for a spouse and up to four children who are less than 20 years old), they must have at least USD 25,000 for each dependant in a Thai bank account or a bank account abroad for at least 12 months before the application date.

Such foreigners and their dependents must also pay a one-off fee of THB 50,000, and are eligible to apply for the digital work permit.

References:

The Cabinet resolution on 10 May 2022

Royal Thai Government

III. Accounting

Exposure draft of TFRS for NPAEs

The current Thai Financial Reporting Standards for Non-publicly Accountable Entities ("TFRS for NPAEs") came into effect on 1 January 2011. Since then, businesses and their transactions have become more varied in terms of type, size, and stakeholders or related parties. As a result, the Thai Federation of Accounting Professions ("TFAC") believes that financial statements may not be prepared properly, or that some businesses should provide additional information or reports.

Therefore, TFAC has proposed to update TFRS for NPAEs. A public hearing was held on 27 April 2022 in order to receive opinions from all interested parties, including accountants, auditors, entrepreneurs, and management.

The revised TFRS for NPAEs are expected to become effective on 1 January 2023. The main changes are set out below:

Topic	Current TFRS for NPAEs	Revised TFRS for NPAEs
Number of chapters	There are 22 chapters in the current TFRS for NPAEs	Six new chapters will be added: • agriculture; • government grants; • derivatives; • business combinations; • exploration for and evaluation of mineral resources; and • service concession agreements.
Definition of Non-publicly Accountable Entities	The current TFRS for NPAEs defines NPAEs as those which are not: • entities that have their equity securities and debt securities publicly traded; • entities that have to submit their financial statements to the SEC, the SET, or other government bodies; • entities that are governed by specific legislation, such as banks, insurance companies, securities companies, mutual funds and other financial institutions; and • public companies.	The revised TFRS for NPAEs extend the definition of NPAEs to cover other types of entities, such as pawn shops and private asset management companies.
Preparation of interim financial information	The current TFRS for NPAEs does not allow the preparation of interim financial information.	Entities may choose to prepare interim financial information following Thai Accounting Standard (“TAS”) 34, ‘Interim Financial Reporting', by excluding irrelevant transactions such as cash flow, earnings per share, and disclosures of related parties.
Presentation of other comprehensive income	Complete financial statements under the current TFRS for NPAEs consist of the following:	The revised TFRS for NPAEs allows the presentation of other comprehensive income.

Topic	Current TFRS for NPAEs	Revised TFRS for NPAEs
	• a statement of financial position; • a statement of income; • a statement of changes in equity; and • notes to the financial statements.	Entities can choose to present a single combined statement of profit and loss and other comprehensive income or two separate statements.
Consolidated financial statements and financial statements presenting investments using the equity method	The preparation of consolidated financial statements and financial statements presenting investments using the equity method is not allowed.	Entities can choose to present consolidated financial statements and financial statements presenting investments using the equity method by following all five relevant financial reporting standards, which are as follows: • TAS 27, 'Separate financial statements'; • TAS 28, 'Investments in associates and joint ventures'; • TFRS 10, 'Consolidated financial statements'; • TFRS 11, 'Joint arrangements'; and • TFRS 12, 'Disclosure of interests in other entities'.
Measurement of property, plant and equipment subsequent to initial recognition – Revaluation method	Only use of the cost method is allowed for the subsequent cost recognition of property, plant and equipment.	The revised TFRS for NPAEs allows the use of the revaluation method if fair value can be measured reliably. The entire class of assets to which that asset belongs should be revalued. Revaluation should be carried out regularly (every 3 or 5 years) so that the carrying amount of the asset does not differ materially from its fair value at the date of the statement of financial position.

Topic	Current TFRS for NPAEs	Revised TFRS for NPAEs
Amortization of the indefinite useful lives of intangible assets	The indefinite useful lives of intangible assets must be amortized for 10 years.	The indefinite useful lives of intangible assets must not be amortized for more than 10 years.

More details will be published in our next newsletter.

References (in Thai language): TFAC

IV. IFRS

IASB halts project on IAS 19 pension benefits that depend on asset returns

From 2018 to 2021, the IASB (International Accounting Standards Board) studied the feasibility of amending IAS 19 *Employee Benefits* to address pension benefits that depend on the returns on specified assets, such as shares or bonds.

For these pension benefits, there is an inconsistency between (a) the cash flows included in the estimate of the pension benefits, which depend on the expected returns on the specified assets, and (b) the discount rate applied to measure the present value of the defined benefit obligation, which is determined by reference to the high-quality corporate bond market. This inconsistency means that the present value of the pension obligation will exceed the expected cash outflow if the expected rate of return on the specified assets is higher than the IAS 19 discount rate.

To address this, the IASB investigated whether it would be possible to add a capped approach to IAS 19. Applying the capped approach, an entity would estimate the pension benefit by applying the IAS 19 discount rate, if that discount rate is lower than the expected rate of return on those assets.

The IASB has just announced that it is calling a halt to the project, as its research has not provided sufficient evidence that such pension benefits are common in all jurisdictions. It concluded that the cost of implementing such a change would outweigh the potential advantages in terms of improved financial reporting. It also noted that by amending the standard to permit a capped approach, it would be introducing an exception to the measurement requirements of IAS 19.

The project summary is available here.

IFRS IC clarifies presentation rules for demand deposits with restrictions on use arising from a contract with a third party

In March 2022, the IFRS Interpretations Committee (IFRS IC) reached a final decision, ratified by the IASB in April and available here, on the presentation rules for demand deposits with restrictions on use arising from a contract with a third party.

The request submitted to the Committee related to the appropriate presentation in the statement of financial position of a demand deposit in the following situation:

- an entity holds a demand deposit whose terms and conditions do not place any limit on the amount of the deposit that the entity can access;

- the entity has a contractual obligation with a third party to keep a specified amount of cash in that demand deposit and to use that amount only for specified purposes. If the entity were to use the amounts in the demand deposit for another purpose, it would be in breach of its contractual obligation to the third party.

The Committee noted that the answer depended largely on whether these amounts met the definition of "cash" under IAS 7. The Committee observed that the definition of "cash" related only to the contract between the entity and the establishment holding the deposit, and there was thus no reason why the amounts would not be classified as "cash". The contract with the third party would not affect this.

Thus, the amounts in the demand deposit should be presented as "cash and cash equivalents" as they meet the definition set out in IAS 7.

However, the Committee also emphasised that the entity would need to comply with the disclosure requirements in IFRS 7 relating to liquidity risk, as well as those in IAS 7 on components of "cash and cash equivalents". It also noted that IAS 1 would require the entity to consider whether it needs to disclose additional information, to enable users of financial statements to understand the nature of the restrictions on the amounts and their impact on the entity's financial position.

Updates to IASB work plan for 2022-2026

At its April meeting, the IASB continued its redeliberations on its work plan for 2022 to 2026, following the third public agenda consultation. It discussed in more detail the seven projects that were shortlisted in March to potentially be added to the work plan for the next five years, and decided:

- to add a maintenance and consistent application project on climate-related risks;
- to launch research projects on:
  - intangible assets; and
  - the statement of cash flows and related matters;
- to create a reserve list of projects that could be added to the work plan if the IASB has the capacity in future;
- to add the following projects to the reserve list:
  - operating segments; and
  - pollutant-pricing mechanisms;
- not to add the following projects to its work plan:
  - cryptocurrencies and related transactions; and
  - going concern disclosures.

Hyperinflation in Turkey: IAS 29 on the agenda again

Preparers with significant exposure to Turkey will need to apply IAS 29 when drawing up their interim financial statements for 2022, after the country was classified as a hyperinflationary economy under IFRSs from 1 April 2022. On 16 March, the International Practices Task Force (IPTF) of the Center for Audit Quality (CAQ), which is the standard reference for identifying hyperinflationary economies, published a document for discussion adding Turkey to the list.

Under IAS 29, preparers must restate the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy. This rule takes effect from the opening of the reporting period in which the economy was first deemed to be hyperinflationary.

In the case of Turkey, IAS 29 thus applies from 1 January 2022 for entities whose reporting period coincides with the calendar year and whose functional currency is the Turkish lira. This applies to both the interim and annual financial statements. For other entities, financial statements should be restated in accordance with IAS 29 for any financial period including 1 April 2022.

Restating separate financial statements under IAS 29: a practical guide

Under IAS 29, entities are required to restate amounts in order to reflect the impacts of inflation by applying a general price index (GPI) to items in the financial statements that are not already expressed in terms of the measuring unit current at the end of the reporting period (thus excluding monetary items, i.e. money held and items to be received or paid in money). The standard does not specify which GPI should be used, but notes that all entities should use the same index. There is as yet no market consensus as to which GPI should be used for Turkey.

Thus, non-monetary assets and liabilities (such as inventories, property, plant and equipment, and intangible assets) should be restated at two different points in time:

- at the beginning of the reporting period, by applying the change in the GPI between the date of contribution and the start of the period at 1 January 2022 (including owners' equity but excluding reserves, which are derived from all the other amounts);
- at the end of the reporting period, by applying the change in the GPI between the beginning of the reporting period (or the date of contribution, if this is later) and 30 June 2022 (including all components of equity except profit or loss).

The items in the statement of comprehensive income for the period (i.e. profit or loss and other comprehensive income) must also be restated by applying the change in the GPI since their date of initial recognition. Depreciation and changes in inventories shall be calculated in such a way as to take account of the effect of restatement in accordance with IAS 29 (as described above) on property, plant and equipment and inventories.

The gain or loss on the net monetary position, resulting from the restatements detailed above, is recognised in profit or loss and must be presented separately. As the restatement process is complex, it is important to carry out a consistency check to rationalize the sign of the gain or loss relative to the net monetary position.

Finally, IAS 29 will apply to separate financial statements drawn up to 31 December 2022 (with restatement of the opening balance sheet at 1 January 2022). This should make it easy to identify restatements under IAS 29 for the purposes of the IFRS consolidated financial statements.

Converting the subsidiary's financial statements from the functional currency to the presentation currency of the IFRS consolidated financial statements

When establishing the IFRS consolidated financial statements, the separate financial statements (restated in accordance with IAS 29) must then be converted into the group's presentation currency, if this differs from the entity's functional currency. The closing rate method is used to do this. Here it is useful to refer to an IFRS IC agenda decision from September 2018 (which referred to the situation in

Venezuela at the time, but the basic principles still apply). The decision specified how to determine the closing rate when a currency is subject to a long-term lack of exchangeability.

In accordance with IAS 21, the consolidated figures for comparative periods presented in a stable currency (such as the euro, US dollar or pound sterling) are not restated. The gain or loss on the net monetary position (as calculated at the entity level) is also presented in the consolidated financial statements. However, the IFRS standards do not specify exactly where in the income statement this gain or loss should be presented. In practice, it is often presented within the financial result.

Finally, an IFRS IC agenda decision in March 2020 confirmed that a preparer may choose where to present the effect of restating an entity's non-monetary items and equity: either in reserves (i.e. directly in consolidated equity) or in other comprehensive income. The choice must be applied consistently over time and for all entities whose functional currency is the currency of a hyperinflationary economy. The decision should also be disclosed in the notes.

It should furthermore be noted that if the Turkish subsidiary is subsequently sold, the effect of IAS 29 restatements shall only be recycled to profit or loss if it was previously presented in other comprehensive income.

Other points to note

In addition to the impacts discussed above, first-time application of IAS 29 to the financial statements of Turkish subsidiaries could have the following effects:

- remeasurement of deferred tax (in accordance with IAS 12 and with reference to IFRIC 7 following the restatement of non-monetary assets, insofar as this increases the difference between the carrying amount of the assets and their tax base (depending on the relevant local legislation);
- an impairment review of restated non-current assets (including when there is no indication of an impairment loss).

In practice, applying IAS 29 requires significant use of judgement (many estimates required, reliability of available information, etc.). However, the standard states that "The consistent application of these procedures and judgements from period to period is more important than the precise accuracy of the resulting amounts included in the restated financial statements."

For entities with significant investments in Turkey, it is important to start considering how to apply IAS 29 as soon as possible, so that all the impacts can be accurately reflected in the interim financial statements for 2022. The restatement process is complicated and will take time, as well as requiring significant input from local teams.

Even if the impact is not significant, it is important to carry out the calculations (in a simplified form if necessary) in order to be able to document this.

To help our readers implement IAS 29 in their consolidated interim financial statements for 2022, we present a simplified worked example on the following page.

Illustrative example:

The financial statements used in this example have been simplified for educational purposes.

A subsidiary issues its interim financial statements at 30 June 2022 in Turkish lira (its functional currency). It applies the provisions of IAS 29 for the first time at 1 January 2022. It only owns one non-monetary asset (a plot of land).

Movements in the GPI are as follows:

	GPI
At the date of share capital contribution	1.00
At the date of land acquisition	1.15
At 31 December 2021	1.30
At 30 June 2022	3.20
Average on the 1st semester 2022	2.80

Step 1: The subsidiary draws up its financial statements in Turkish lira before restating under IAS 29.

	Step 1		
	31 Dec. 2021 (published)	1 Jan. 2022 (before rest.)	30 June 2022 (before rest.)
Land	65 000	65 000	65 000
Cash	35 000	35 000	54 000
Total Assets	**100 000**	**100 000**	**119 000**
Share capital	50 000	50 000	50 000
Reserves	-	50 000	50 000
Net income	50 000	-	19 000
Total Equity	**100 000**	**100 000**	**119 000**
Provisions and non financial debts	-	-	-
Financial debts	-	-	-
Total Liabilities	**100 000**	**100 000**	**119 000**

	31 Dec. 2021 (published)	1 Jan. 2022 (before rest.)	30 June 2022 (before rest.)
Revenue	82 000	-	42 000
Operating expenses	(32 000)	-	(23 000)
Net income	**50 000**	**-**	**19 000**

Step 2: the subsidiary restates the non-monetary items in the opening balance sheet (land and share capital) to reflect the GPI changes between their contribution date and 1 January 2022. Reserves are derived by calculating the difference in order to balance the statement of financial position.

Step 2.1

	1 Jan. 2022 (after rest.)	
Land	73 478	= 65 000 * (1.30 / 1.15)
Cash	35 000	
Total Assets	**108 478**	
Share capital	65 000	= 50 000 * (1.30 / 1.00)
Reserves	43 478	
Net income	-	
Total Equity	**108 478**	
Provisions and non financial debts	-	
Financial debts	-	
Total Liabilities	**108 478**	

At the reporting date, the subsidiary restates the non-monetary items remeasured in the previous step (land, share capital and reserves) to reflect the GPI changes between 1 January and 30 June 2022. The net income for the period is not restated at this stage.

Step 2.2

	30 June 2022 (after rest. on closing B/S)	
Land	180 870	= 73 478 * (3.20 / 1.30)
Cash	54 000	
Total Assets	**234 870**	
Share capital	160 000	= 65 000 * (3.20 / 1.30)
Reserves	107 023	= 43 478 * (3.20 / 1.30)
Net income	19 000	
Total Equity	**286 023**	
Provisions and non financial debts	-	
Financial debts	-	
Total Liabilities	**286 023**	

The subsidiary then restates the items recorded in profit or loss by applying the change between the average index over the first half of 2022 and 30 June 2022.

An average index for the period can only be used where the activity is not seasonal, and where the change to the index is regular over the period concerned.

	Step 2.3 30 June 2022 (after rest. on P&L)	
Revenue	48 000	= 42 000 * (3.20 / 2.80)
Operating expenses	(26 286)	= (23 000) * (3.20 / 2.80)
Net income	**21 714**	

Finally, the subsidiary recognises the loss on the net monetary position in order to balance the statement of financial position following all the previous steps, and presents it separately in profit or loss.

	Step 2.4 30 June 2022 (after gain/loss on net position accounting)	
Land	180 870	
Cash	54 000	
Total Assets	**234 870**	
Share capital	160 000	
Reserves	107 023	
Net income	(32 154)	= 234 870 - 160 000 - 107 023
Total Equity	**234 870**	
Provisions and non financial debts	-	
Financial debts	-	
Total Liabilities	**234 870**	

	30 June 2022 (after gain/loss on net position accounting)	
Revenue	48 000	
Operating expenses	(26 286)	
Gain / loss on net monetary position	(53 868)	= (32 154) - 48 000 - (26 286)
Net income	**(32 154)**	

For the requirements of Group consolidated accounts in euros, the assets, liabilities, equity, income and expense items deriving from the subsidiary's consolidation package are then converted at the closing exchange rate of the reporting period concerned (i.e. 30 June 2022).

The loss on the net monetary position is maintained in profit or loss in the consolidated accounts.

V. Sustainability

ISSB creates working group to enhance compatibility of sustainability disclosure standards

On 27 April 2022, the International Sustainability Standards Board (ISSB) announced the creation of a working group comprising representatives of different jurisdictions, to establish a dialogue to enhance compatibility between the proposed IFRS Sustainability Disclosure Standards and jurisdictional initiatives (particularly in Europe and the United States). The ISSB's goal is to establish a global baseline of recognised international standards, used across the world, in order to meet users' needs.

The members of the working group are the Chinese Ministry of Finance, the European Commission, the European Financial Reporting Advisory Group (EFRAG), the Japanese Financial Services Authority, the Sustainability Standards Board of Japan Preparation Committee, the United Kingdom Financial Conduct Authority and the US Securities and Exchange Commission (SEC).

The ISSB also announced that a new advisory body, the Sustainability Standards Advisory Forum, would be created during the next quarter to facilitate regular dialogue with a broad range of jurisdictions and to obtain high-level advice.

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