
Goods & Raw Materials Report for VAT purposes

July 2018

The Revenue Code requires VAT operators engaging in trade and manufacturing businesses to prepare a Goods & Raw Materials Report for VAT purposes. From the author's experience, several trade and manufacturing companies do not prepare complete Goods & Raw Materials Reports. This article provides general rules about the report, tax implications, and penalties imposed on violating operators.

Requirements to prepare a Goods & Raw Materials Report

Section 87 (3) of the Revenue Code requires VAT operators who engage in trade and manufacturing businesses to prepare Goods & Raw Materials Report. By doing so, operators will know sales amounts and the remaining inventories, including receipts and disposals of raw materials. In addition, the Revenue Department normally examines the Goods & Raw Materials Report of VAT operators during tax audits to check whether businesses keep proper records and correctly pay taxes correctly.

The VAT operators must prepare the report in the format designated by the Director-General of the Revenue Department. Or at least, the report must contain important information, for example:

- name of the report
- name of the operators,
- place of the business,
- tax identification number,
- name of the goods or raw materials,
- characteristics of the goods/raw materials, e.g. size and quantity,
- number of key referral documents,
- remaining balance,
- date time of receipt or disposal,
- etc.

The report must be prepared according to the types of the goods or raw materials. The VAT operators must record the movement of the goods and raw materials within three working days from the date of their receipt or disposal.

However, in practice, we discovered that operators do not strictly follow the report format designated by the Director-General of the Revenue Department. In some cases, the reports do not contain key information as required by the law.

Penalties

Where VAT operators fail to prepare complete Goods & Raw Materials Report, they may face the following:

- Penalties at 200% of the VAT calculated according to the tax base of the goods or raw materials that are not shown in the report (Section 89 (10) of the Revenue Code)
- Criminal penalties not exceeding Baht 2,000.

Missing Goods & Raw Materials from the Report

In addition to the Goods & Raw Materials Report, VAT operators must also be aware that where physical goods or raw materials are missing from the inventories, i.e. physical stocks are less than those shown in the report, the VAT operators would be liable to further tax liabilities.

In general, where physical stocks are missing, the Revenue Department would, under Section 77/1 (8)(e) of the Revenue Code, deem that the missing inventories have already been sold. Two tax implications arise.

First, missing inventories are deemed sold for VAT purposes. The VAT operator must pay VAT, i.e. output tax on the missing stock. A self-assessment and payment of VAT of the missing inventories may not be subject to a penalty and surcharge. However, where the missing inventories are discovered by the Revenue Department, e.g. during a tax audit, the VAT operator would be liable to the penalties and surcharges.

Second, the VAT operator may have to treat the missing inventories as sales for Corporate Income Tax ("CIT") purposes. More specifically, the VAT operator would have to recognize the sales revenue from the missing inventories in its CIT calculation and pay CIT on the net profits at the rate of 20%.

Author's Note

The Revenue Code requires VAT operators who engage in trade and manufacturing businesses to prepare a Goods & Raw Materials Report so that the business and the payment of taxes can be correctly examined. It is very important for the VAT operator to strictly follow the legal requirements for its own benefits for both commercial and taxation points of view. In addition, the operators should carefully manage its goods and raw materials to avoid missing stock and prevent any resulting negative implications. VAT operators should review their own operations and prepare the Goods & Raw Materials Report required by the laws. Doing so not only prepares VAT operators for inquiries and investigations by authorities, but can also help create better internal governance.

**By Mr. Monchai Vachirayonstien, Partner and Ms. Athisri Pothisutha, Manager Dherakupt International Law Office Ltd.*

Note: Dherakupt International Law Office Ltd., has changed its name from DRK to DRKI. E-mail and website domains are @drkilaw.com (e.g. phongnarin_r@drkilaw.com) and www.drkilaw.com.