

SEP-98 WED 9:59
MR. TSUBAKI
FROM: MR. TOYODA
MR. ISHIDA
No 0813/ 13260



Revenue Department
90 Phaholyothin 7 Road,
Samsen Nai, Phayathai
Bangkok 10400, Thailand
Tel : (662) 2728640
Fax : (662) 6173643

September 9, 1998

Dear Mr. Tsubaki,

I wish to inform you that the Revenue Department of Thailand and the National Tax Administration of Japan have reached agreement on the interpretation of the calculation of gross profit of a Japanese enterprise selling goods through sales agent in Thailand. I therefore would like to take this opportunity to summarize agreement as follows :

1. The Revenue Department of Thailand will adopt the collective basis in calculating gross profit of a Japanese enterprise selling goods through sales agent in Thailand.

2. This method will be used by those Japanese taxpayers who submit relevant documents to the Revenue Department, including Income Statement certified by Certified Public Accountant (CPA) and a notarial certificate certifying the signature of CPA. However, if the Japanese enterprise fails to submit these documents, the net profit will be calculated in accordance with the Revenue Code. In addition, the Revenue Department requests that Japanese enterprise provide the Details of Sales of the enterprise upon the request of the audit officer. A sample of the Detail of Sales is attached herewith for your information.

3. In the calculation of gross profit and expenses, only "Gross Export Sales to Thailand" must be converted to Thai baht, based on the daily selling rate of the relevant currencies as announced by the Bank of Thailand. The formula therefore shall be :

/Gross Profit...

Mr. Teruo Tsubaki
President
Japanese Chamber of Commerce,
15th floor, Amarin Tower,
500 Pleonchitr Road
Bangkok 10330
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$$\text{Gross Profit} = \frac{\text{Gross export profit of sectors exporting to Thailand (foreign currency)}}{\text{Gross export sales of sectors exporting to Thailand (foreign currency)}} \times \text{Gross export sales to Thailand (baht)}$$

$$\text{Expenses} = \frac{\text{Selling, general and administrative expenses (foreign currency)} + \text{Other related expenses (foreign currency)}}{\text{Worldwide gross sales (foreign currency)}} \times \text{Gross export sales to Thailand (baht)}$$

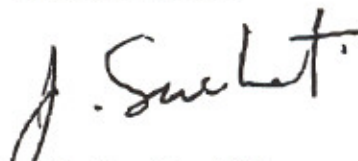
4. Expenses of the enterprise, including interest, must be those which are proved to be attributable to the permanent establishment in Thailand, and are in accordance with the Revenue Code.

5. The above methodology shall apply to the accounting period ending on or after 31 March 1999. However, it shall not apply to cases which are now under the consideration by the Court or the Board of Tax Appeal. The methodology shall also not apply to cases which the Japanese enterprise had already filed the tax returns before the agreement date and received summons after such date, or cases which have not been given assessment notices but are now under the investigation of the Thai revenue officers. The basis for determining gross profit in either case shall be the Generally Accepted Accounting Principle used in Thailand.

I would like to request for your kind assistance in conveying the above information to concerned members of the Japanese Chamber of Commerce. A case study is attached herewith for your information. Should you have any problem regarding this matter, please do not hesitate to contact us.

With best regards.

Sincerely yours,



Capt. Suchart Jaovisidha
Director-General

Details of Export Sales to Thailand

Unit : million

Date	Customer	Sector	Amount Yen	Ex.rate (1) 100 Yen	Amount Baht	Rate of commission (% of amount)	Commision received	
							Yen	Baht
04-Apr-96	aaa	Fuel	100	20.04	20.04	0.5	0.50	0.10
04-Apr-96	bbb	Chemical	80	20.04	16.03	0.5	0.40	0.08
06-Apr-96	ccc	Textile	250	20.50	51.25	0.5	1.25	0.26
06-Apr-96	ddd	Machinery	100	20.05	20.05	0.5	0.50	0.10
25-Apr-96	eee	Metal	125	21.00	26.25	0.5	0.63	0.13
07-Jun-96	mmm	Machinery	200	20.94	41.88	0.5	1.00	0.21
14-Jun-96	ppp	Fuel	50	20.66	10.33	0.5	0.25	0.05
14-Jun-96	aaa	Fuel	50	20.66	10.33	0.5	0.25	0.05
05-Jul-96	kkk	Metal	75	21.01	15.76	0.5	0.38	0.08
06-Jul-96	ccc	Textile	50	21.01	10.51	0.5	0.25	0.05
22-Jul-96	bbb	Chemical	520	22	114.40	0.5	2.60	0.57
22-Jul-96	xxx	Chemical	400	22	88.00	0.5	2.00	0.44
25-Aug-96	vvv	Metal	100	21.06	21.06	0.5	0.50	0.11
Total			2,100		445.88		10.50	2.23

(1) Exchange rate is the rate announced daily by the Bank of Thailand

Income Statement
Calculation of Net Profit of Japanese Enterprise
for the year ending March 31, 19xx

	yen	baht
<u>Sales:</u>	2,100,000,000	445,880,000
<hr/>		
Gross Profit :		16,943,440.00
Expenses:		
Selling, general and admin expenses	3,678,510	
Extraordinary profit and loss	<u>0</u>	(3,678,510.00)
<hr/>		
<u>Net profit (Baht)</u>		<u>13,264,930.00</u>

NOTES:

(1) Sales represents the aggregate export sales amount to Thailand through Indent PE. Conversion to Thai baht can be made at this stage by using Section 65 bis (5).

(2) Gross profit is computed on the collective basis.

Gross profit = Gross profit ratio x Sales (bht.)

= $\frac{\text{Gross export profit of sectors exporting to Thailand (yen)}}{\text{Gross export sales of sectors exporting to Thailand (yen)}} \times \text{Sales bht.}$

= $\frac{950,000,000}{25,000,000,000} \times 445,880,000$

= $0.038 \times 445,880,000$

= 16,943,440 bht.

(3) Selling, general and administrative expenses

= Expenses ratio to worldwide sales x Sales (bht.)

= $\frac{\text{Total amount of selling, general admin expenses (yen)}}{\text{Worldwide gross sales (yen)}} \times \text{sales (bht.)}$

= $\frac{495,000,000 \text{ (yen)}}{60,000,000,000 \text{ (yen)}} \times 445,380,000 \text{ (bht.)}$

= $0.00825 \times 445,880,000$

= 3,678,510 bht.

(4) Extraordinary profits and losses attributable to PE, if any.

Details of Gross Export Sales and Gross Export Profit of Sectors exporting to Thailand

Unit : million

	Fuel	Metal	Machinery	Chemical	Textile	Sub-total	Food	Total
Gross Export Sales (yen)	2,000	4,000	3,000	10,000	6,000	25,000	5,000	30,000
Gross Sales to Thailand (yen)	200	300	300	1,000	300	2,100	-	2,100
(baht)						445.88		
Gross Export Profit (yen)	60	160	90	400	240	950	250	1,200

Note 1 : Food was not exported to Thailand during the accounting period

Note 2 : Worldwide gross sales is 60,000,000,000 yen

Expenses

Selling, General and Administrative Expenses	Unit : Yen
Salary & Wages	200,000,000.00
Bonus	50,000,000.00
Retirement allowance	30,000,000.00
Legal Welfare expenses	20,000,000.00
Hotel and Transportation expenses	20,000,000.00
Communication expenses	10,000,000.00
Office supplies expenses	50,000,000.00
Rent, water fuel and electricity expenses	20,000,000.00
Advertising expenses	10,000,000.00
Entertainment expenses	10,000,000.00
Taxes other than Income tax, tax penalties , and/or surcharges and VAT	20,000,000.00
Miscellaneous expenses	55,000,000.00
Sub Total	495,000,000.00
Donation	-
Bad debts	-
Total	495,000,000.00

= Sample =

AUDITOR'S REPORT

A Corporation:

We have examined A corporation's statement of net profit derived from sources within Thailand through Thai-B co. for the year ended March 31, 1998. Our examination was made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statement referred to above presents fairly A corporation's net profit derived from sources within Thailand through Thai-B co. for the above mentioned period on the basis indicated in Notes.

(Date)

(Signature)

Name of

Certified Public Accountant.

= Sample =

NOTARIAL CERTIFICATE

This is to certify that _____, an agent of
_____, Certified Public
Accountant of _____ * * * * *

* * *

* * *

* * * * *, stated in my very presence that
said _____ * * * * *

* * *

* * *

acknowledges(s) himself to have signed to the attached report.

Dated this _____ (Date)

SEAL

(Signature)

Name of officer

NOTARY PUBLIC

Address

This is to certify that the Official Seal of the Director of the Tokyo Legal Affairs Bureau, Japanese Government, affixed to the accompanying document, is genuine.

Tokyo, (Date)



Official
Ministry of Foreign Affairs
(Second Consular Division)

No.

I do hereby certify that the above signature is the genuine signature of _____

Official, Ministry of Foreign Affairs of Japan.



(The Royal Thai Embassy, Tokyo, assumes no responsibility for the contents of the document.)



No.0813/22167

Revenue Department
90 Phaholyothin 7 Road,
Phayathai, Samsen Nai,
Bangkok 10400 Thailand
Tel : (662) 2728639
Fax : (662) 6173643

August 22, 2000

Dear Mr. Arikawa,

I would like to inform you that the Revenue Department of Thailand and the National Tax Administration of Japan have agreed on the interest net formulas to be used in the calculation of net profits of Japanese Companies selling goods through sales agents in Thailand. The agreed interest net formulas are as follow:

- In the case where interest expense is greater than interest income

Interest expense = (Interest expense - Interest income)

$$X \frac{\text{Average trade payables}}{\text{Average total liabilities}} \times \frac{\text{Export Sales to Thailand}}{\text{Worldwide Sales}}$$

- In the case where interest income is greater than interest expense

Interest income = (Interest income - Interest expense)

$$X \frac{\text{Average trade receivables}}{\text{Average total assets}} \times \frac{\text{Export Sales to Thailand}}{\text{Worldwide Sales}}$$

Average : Average of the account balance at the end of the previous fiscal year and the current fiscal year

Trade payables : Trade accounts payable + Trade notes and acceptance payables

Trade receivables : Trade accounts receivables + Trade notes receivables

/The...

Mr. Taketoshi Arikawa
President
Japanese Chamber of Commerce, Bangkok
15th Floor, Amarin Tower
500 Ploenchit Road,
Bangkok 10330
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The above formulas have come into effect strating from 15 August 2000 and shall be applied to accounting periods ending on or after March 2000.

I would like to request for your kind assistance in conveying the above information to concerned members of the Japanese Chamber of Commerce. Should you have any questions regarding this matter, please do not hesitate to contact us.

With best regards.

Sincerely yours,

Sanit Rangnoi

Sanit Rangnoi
Deputy Director-General
for Director-General

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