

## Abstract

Agricultural business is essential for citizen of our country because it produces agricultural products which can be used as food and raw materials for other industries. Agriculture is thus an important primary producer. Moreover, in Thailand, there are a lot of farmers. Agricultural business is the production of an agricultural product relying on biological transformations of a biological asset. After production, an agricultural product is sold for profit. The income from such sale must be included in the income of the farming organization for calculation of corporate income tax. If the product cannot be sold within the tax year, it must be considered as inventory as specified in the Revenue Code. Depreciation can be deducted from the value of a biological asset but an increase or decrease of an biological asset is not considered in calculation of profit for tax purposes. A value-added tax may be included in the selling price of agricultural products unless such sale qualifies for the exceptions.

The study on tax burden of farming business reveals that the Revenue Code is not supportive of agricultural business as the existing provisions therein cause problems in adjustment of items for calculating the corporate income tax and do not allow appropriate value-added tax benefits. Since taxes are the sources of state income, tax law should not impose excessive burdens on tax payers. Moreover, the law should allow tax benefits for business which is essential for everyday lives of the citizens of the state.

In calculating depreciation for tax purposes, a farming business must recognize bearer biological assets its properties, and includes its production costs in its cost of acquisition of the assets as the basis for depreciation. Deduction of depreciation can start at the time when the asset starts to give products. However, according to the law, deduction of depreciation must be made for not less than 5 years. As a result, a farmer who possesses livestock with preproduction period of lower than 5 years must adjust his financial account in accordance with his tax account. This causes

difficulties to the business and renders recognition of items in tax account later than that in financial account.

In addition, Thai Accounting Standard No.57 on agriculture distinguishes biological assets from the recognition of other assets and imposes that a farmer shall apply a market price method or a farm price method in evaluation to demonstrate the management of the biological transformation from years to years. As a result, agricultural business has to evaluate its biological assets and recognize benefit or loss based on such evaluation. It is thus difficult to adjust its financial account in accordance with the provisions of the Revenue Code because the method used in a financial account is different from that under the Revenue code and the realization of items is different.

From my study, the problems of the inconformity between a financial account and a tax account are the result of application of taxation provision of general assets to biological assets, which possess distinguish characters. The specific provisions, as those in other countries, will decrease tax burden on a tax payer. The tax law of the United States provides specific provisions for biological assets which allow a tax payer to choose to recognize a biological asset as an asset and depreciate during the time of production or to evaluate it using a farm price method or a unit-livestock method.

Hence, I propose the amendment of the Royal Decree No. 145 regarding depreciation of asset (B.E.2527) to allow deduction of depreciation during production period and the amendment of section 65 bis (6) of the Revenue Code to allow a farm price method for a biological asset in the same way as farm inventory method.

Regarding sales of agricultural products, a farming organization is entitled to a value-added tax exception for sales of animals and plants, including their parts in the conditions close to their natural conditions without industrial package. A VAT is thus not included in a selling price. This causes problems in interpretation and inequality of the same goods with different packages. Under this provision, sale of a pet is treated in the same way as sale of animal as food. Moreover, exception of value-added tax will result in an input tax in raw materials and properties. This will increase production cost.

Despite the exception, properties in relation to agricultural business are not taxless and end consumers will have to shoulder a sale tax. Though raw materials are excepted from VAT, a purchase tax is still applicable to other properties of the business.

From my study, value-added tax exception is beneficial to a producer in the way that there is no cost in complying with the law. However, there is a tax burden in raw materials. The exception is thus not suitable for the business with a long production period and a high production cost, such as farming business. In the United Kingdom, a zero rate tax is allowed for sales of products as normally producing for human consumption. As a result, the business will receive a full purchase tax and will not have to include a VAT in a selling price. This benefits not only a producer but also a consumer. I thus propose the amendment of sections 80 and 81 (a) to allow a zero rate tax for sale of animals, places and their parts as general food for human beings. Such amendment will eliminate an input tax in a production cost and thus decrease a production cost for everyday consumption.