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Taxation of Food Shop

by

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You can be rich if you have four qualifications:

1. Hard Working. A lazy man will never be a rich man.

2. Save Money. A big spender will never become rich either.

3. Be Knowledgeable. My mother always tells me to keep learning new things and I can stop only when I die. Nowadays, technology moves forward at a very fast pace and you need modern knowhow to make you up-to-date and competitive. You should exploit intellectual property which includes copyright, patent, trademark and servicemark.

4. Be Generous, Honor Your Father and Your Mother. Remember that charity begins at home and look after people around you. This will enrich yourself including your soul.

Food Shop Tax Planning

If you want to open a food shop or restaurant either big or small, you need to plan your tax. This applies to all types of restaurants and food chains including listed companies such as S&P Syndicate Public Company Limited, owner of the famous brandname "S&P". Non listed companies that make a lot of money can also be found such as MK Suki and Fuji Japanese Restaurant.

If you run a food shop, be sure to identify the various cost components. Out of the Baht 100 sales, cost and profit ratio should be as follows:

1. Raw materials such as vegetable, meat and fish, about 35%.

2. Rent, salary and wages plus overhead, 30%.

3. Interest, depreciation including profit 35%.

If your raw material cost exceeds 35% or that your rent and salary cost exceed 30%, then it is difficult to be profitable.

When you make the first sale, be aware of value added tax or VAT and where you make profit, then you have to pay income tax. This rule applies to both big and small food shops.

VAT

A Noodle Shop in Food Court

I normally do not spend a lot of money and whenever I visited a shopping arcade, I always eat at the food court. One day, a small operator selling noodle asked for my tax advice. He told me that he rents a booth and split the revenue 60:40 with the food court owner. That is to say, he gets 60% of the sales and the owner takes 40%. Since he works hard and his noodles taste excellent, his share of revenue is about to touch Baht 1.8 million a year or Baht 150,000 monthly. The food court owner warns him that he shall apply for VAT registration and start paying the tax. He is worried because currently his sales do not exceed Baht 1.8 million a year and he is exempt from VAT. If he has to pay 7% for VAT, this amounts to Baht 126,000 year or Baht 10,500 a month and this will cut his profit by a substantial margin. He sought my advice on tax planning so that he can continue to enjoy VAT exemption.

After a fact finding, I found that he and his wife operate the noodle shop from 9.00 a.m. until 9.00 p.m. daily, roughly he works 14 hours a day, 7 days a week to achieve the Baht 1.8 million sales. I told him that nobody can work 7 days a week and the fact is that he has two sons helping out in the food shop. Therefore, I advised him to split the revenue among them. One portion for him and another for his children. He should make arrangement with the landlord that he works four days a week from Mondays through Thursdays where there are less shoppers. Then his two sons will come in from Fridays to Sundays. In this case, they would be able to split the income, half for the parents or Baht 900,000 and the other half for the two sons and continue to enjoy the VAT exemption as an SME.

Nevertheless, tax planning has to be supported by documentation. He has to make arrangement with the food court owner to sign separate contracts so that the revenue can be split among father and sons.

The big advantage of tax planning is that after making a right start, you enjoy tax saving day in and day out and whatever is saved can be used for your retirement. Especially when you invest in tax saving mutual fund such as Retirement Mutual Fund or RMF and Long Term Equity Fund or LTF, you can claim tax deduction at 15% of your income.

For both RMF and LTF, you can deduct tax 15% of your income not exceeding Baht 500,000 per year. If you amke Baht 1.8 million, your deduction is Baht 540,000. If you can set aside this amount of money every year, when you retire you will have at least Baht 10 million. The principal that you contributed to the fund is already Baht 5.4 million. On top of it, you will get interest, dividend and capital gain and I believe in 10 years, your earnings will not be less than Baht 4.6 million making a total of Baht 10 million. The Equity RMF code named VRMF of One Asset Management has a Net Asset Value of Baht 44 a unit while the par value six years ago was only Baht 10.

For a major food store, the problem is not only VAT but it is the corporate income tax. They should take the following into consideration:

(1) VAT

This is 7% of gross sales. To minimize the VAT output tax, you have to maximize the tax credit by securing tax invoices from whoever you pay to your contractors and suppliers. Other items and equipment used in your restaurant business such as motor vehicles can also give you VAT credit.

(2) Corporate Income Tax

Food shops operated as a company shall prepare audited accounts and file balance sheet with the Business Development Department, Ministry of Commerce as well as the Revenue Department every year for tax payment. If you are an SME with registered capital not exceeding Baht 5 million, your tax rate is as follows:

First Million Baht Profit	Tax at 15%
One Million to Three Million Profit	Tax at 25%
Profit above Three Million	Tax at 30%

The first Baht 150,000 profit of the SME is tax exempt.

Major food stores often encounter problems of getting receipts and tax invoice of their raw materials to deduct against sales revenue especially where they have to buy meat and vegetable from the fresh market. If the vendors do not give them proper receipts, their profit will be overstated.

Fortunately, modern trade such as Makro and Tops Supermarket can supply all your food ingredients and give you proper receipts. When you buy fresh produces which are agricultural items not subject to VAT, then you pay the price without VAT. If you procure processed item where VAT is imposed, then you should be able to get the tax credit. Make sure they deliver you the tax invoices.

I would like to re-iterate that you have to look after proper documentation to support your claim for VAT credit and expenses deduction. You need to put pressures on your suppliers to give you full receipts.

To enable you to identify a proper tax invoice and receipt, check the following law:

Tax invoice under Section 86/4 of the Revenue Code shall have the following format:

(1) The word “tax invoice” on the receipt;

(2) Name, address and taxpayer identification number of the VAT operator issuing tax invoice;

(3) Name and address of the purchaser of goods or services;

(4) Serial number of tax invoice;

(5) Description, category, quantity and value of goods or services

(6) Amount of value added tax calculated on value of goods or services clearly separated from the value of goods or services;

(7) Date of issuance;

(8) Any other particulars as prescribed by the Director-General of the Revenue Department.

Receipt for expenses deductions shall have all entries according to Section 105 bis as follows:

(1) Taxpayer identification number of the receipt issuer,

(2) Name of issuer,

(3) Serial numbers of the receipt,

(4) Date of issuance,

(5) Amount of payment received,

(6) Type, description, quantity and price of the goods.

Any tax invoice or receipt that does not have the above entries cannot give you tax credit or neither do they allow you to claim expense deduction.

Good luck in your venture.

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