

FREE ZONE

The Free Zone Scheme encourages Thailand-based operations by removing certain disincentives associated with manufacturing in Thailand. The duty on a product manufactured abroad and imported into Thailand is assessed on the finished product rather than on its individual parts, materials, or components. The Thailand-based manufacturer finds itself at a disadvantage compared with its foreign competitor when it must pay a higher rate on parts, materials, or components imported for use in a manufacturing process. The Free Zone Scheme corrects this imbalance by treating products made in the Zone, for the purpose of tariff assessment, as if it were manufactured abroad. At the same time, this country benefits because a zone manufacturer uses Thai labor, services, and inputs.

Definition

A Free Zone is an area designated by the Director-General of Customs under Section 97 ter of the Customs Act B.E. 2469 amended by Section 8 of the Customs Act (No.18) B.E. 2543 for industrial or commercial operation or any other activities beneficial to economy of the country.

A Free Zone may be composed of many subzones operating either industrial/commercial Free Zones or any other operations involving in economic growth and development; or a combination of any type of Free Zone.

Advantages of Free Zone

All of the advantages a Free Zone Scheme can offer manufacturers and processors located in Thailand are numerous. A few main benefits that account for most of the companies that use a Free Zone Scheme are listed below:

1. Relief from Import and Internal Taxes/Duties: Imported merchandise, removed into or manufactured in a Free Zone for industrial or commercial operations or any other operations involving economic growth and development, is not subject to import taxes and duties. This includes:

- Machinery, equipment, and parts;
- Foreign merchandise; and
- Merchandise transferred from other Free Zones.

In addition the imported merchandise removed into or manufactured in a Free Zone is also not subject to Value Added Tax (VAT), excise taxes, alcohol tax, including tax stamp and fees under the Alcohol Act, Tobacco Act, and Playing-Card Act. Additionally, a **“ZERO”** tax rate is applied to calculate VAT for domestic merchandise removed into a Free Zone, provided that such merchandise subject to export duty or exempted from export duty under the Customs Act.

- Relief from Export Duty on Re-Exports: Without a Free Zone, if a manufacturer or processor imports a component or raw material into Thailand, it is required to pay import taxes and duties at the time the component or raw material enters the country. However, a Free Zone is considered to be outside Thailand and Thai Customs territory. Accordingly, when foreign merchandise is brought into a Free Zone, no taxes and duties is owed until the merchandise leaves the Zone and enters Thailand for consumption. Only then is the merchandise considered imported and the duty paid. If the imported merchandise is re-exported to other countries, no Customs duty is charged.
- Relief from Standard/Quality Control Requirements: Imported merchandise or domestic raw materials removed into a Free Zone for manufacturing, mixing, assembling, packing, or any other operations is relieved from standard/quality control

requirements or any other similar requirements; provided that such merchandise is re-exported to other countries.

- **Duty Exemption on Waste, Scrap, and Yield Loss:** If the processor or manufacturer is conducting its operations within a Free Zone environment, the merchandise is not considered imported, and therefore scrap, waste, or yield loss from an imported component is exempted from import and internal taxes and duties, if applicable.
- **Eligible for Export Tax Refund/Exemption Schemes:** Merchandise entitled to export tax refund/exemption schemes when exported is still qualified for such schemes after it is removed into a Free Zone.

establishing a Free Zone

When a community determines that a Free Zone Scheme is needed and can be feasibly established and operated, then it must address the Free Zone application rules and procedures.

Eligible Free Zone Licensee

- A state enterprise or public company limited established under the Public Limited Companies Act B.E.2535 or a limited company established under the Civil and Commercial Code.

If an applicant is a limited company established under the Civil and Commercial Code and would like to establish a Free Zone located in Bangkok, Nontaburi, Pathum-Thanee, Nakhon-Pathom, Samut-Prakarn, Samut-Sakorn and Chachengsao such applicant shall have the paid-up register capital not less than 20 million baht or more than 10 million baht or have amount of paid-up register capital as specified by the Director-General in order to establish a Free Zone in other areas.

- A secure financial status

Site ownership or the right to manage the areas proposed for approval.

- No record of any serious offences against Customs law and regulations and other relevant laws within the past 3 years from the date of lodging the application

Application Procedures for Free Zone Licensees

A request for a grant of authority to establish a Free Zone shall consist of a completed application form together with supporting documents listed below: An application form for establishing a Free Zone Details of Free Zone project

- Project plan, purpose, type of business, etc.
- Management plan, finance plan, source of funding, marketing plan, maintenance plan
- Future plan (if any)

Legal person registration A list of shareholders and registration certification issued not exceeding 6 months from the date of application VAT registration

- Other such as benefits for national economy A grant of authority for operating an industrial-related activities as indicated in 5.1.1 (a) – (e); Financial statement, certified by a competent auditor, for at least 3 consecutive years Title deeds or certificate of title or land lease indicating ownership or the right to manage the areas proposed for approval 3 copies of a site blueprint of a size not less than 40X60 CM2 Certification of construction and supply of equipments, utensils, office supplies, and other necessary facilities according to rules and regulations including estimated time schedule for construction and activation of the Zone Intending applicants for an Industrial Free Zone shall submit additional document as follows:

- Granted authority from the Minister of Industry to establish an industrial activity zone; or

- Granted authority from the Industrial Estate Authority of Thailand; or
- Granted authority from the Board of Investment to invest in an industrial zone or software industrial zone or ornament and jewelry industrial zone; or
- Granted authority to operate any other industries involving in economic growth and development.

The documents from (a) to (j) are submitted to the Free Zone Criteria Sub-Division, Free Zone Division with their duplicates, except that in (h) of which 3 copies are required. Thai Customs has set standard for verification the documents and related information within 7 days of the receipt of the applications and documents, and will seek to verify the documents within a shorter period if possible. After a responsible officer visits the site of the proposed Free Zone, the result will be communicated to the applicant for further arrangements. An applicant granted an approval is required to sign a bond and security contract with Customs, pay annual fee, and place a bank guarantee within 15 days from the date of receiving such notice.

Once an authority to establish the Zone is granted, Customs will issue the applicant a Free Zone permit/license (Form Kor Sor Kor 184) and the licensee (applicant) may start construction of the Zone site, taking into account the blueprint of zone site previously approved by Customs.

The amounts of a bank guarantee and annual fee are listed in the table below:

| Area | Bank Guarantee (Baht) | Annual Fee |
|---------------------------|---|---|
| Bangkok Metropolitan Area | 5,000,000 | 300,000 |
| Other Areas | 2,000,000 | 300,000 |
| NOTES | Bank guarantee is returned when a Free Zone begins to operate | Annual Fee for next year is paid before 31 December of current year |

* Annual fee is determined according to the Ministerial Notification No. 142 (B.E. 2546)

REQUEST TO BE Free Zone USERS

A Zone user is a party using a Zone under agreement with the Zone licensees or operators. Thai Customs will consider the following factors in determining whether to issue a grant of authority for a zone user:

Eligible Free Zone Users

- A legal person with secure financial status who is the site owner or have the right to manage the areas proposed for approval to be a Free Zone

In the event where the applicant is not a legal person, a request to relax this requirement may be considered by submitting the request together with the application of a Free Zone user

Granted approval from a Free Zone licensee to operate Free Zone activities Zone activities operated in a Free Zone shall be in compliance with the stated Free Zone objectives, or involving in economic growth and development No past record of committing serious Customs-related offences or violation for the past 3 years.

Application Procedures for Free Zone Users

An application for a grant of authority to be a zone user consists of a completed application form together with supporting documents listed below: Application for a Free Zone user A legal person registration A list of shareholders and registration certification issued not exceeding 6 months from the application date VAT registration A grant of authority to operate a zone project from a Free Zone licensee A site plan indicating the location of the subzone within a Free Zone

- Details of application to operate Free Zone activities e.g. objectives, type of business, business plan and manufacturing process, source of capital, etc.
- Financial statements certified by a licensed auditor for the past three years
- A site blueprint indicating the location of activities in the Free Zone.

Similar to a Free Zone licensee, a zone user is required to give a bond and security contract to Customs in a form prescribed by Customs. The security is placed to ensure the zone user's compliance to Customs-related laws and regulations and to guarantee his/her responsibility for any potential damages that may occur.

Responsibilities of Free Zone Licensees and Users

Both a Free Zone licensee and user shall comply with Customs-related laws, rules, and regulations, both the existing ones and those to be notified in the future. They shall also strictly follow the security by bond entered with the Customs Department. In case the Free Zone licensee and user break the rules and regulations of Customs, and consequently causing any damages, Customs is empowered to revoke the license or take any appropriate actions to remedy the damages. The revocation shall take effect within 15 days from the date of receiving the notice of revocation.

CONTACT

For further inquiry and information, you may contact the Customs Call Center at Tel. 1164 or the Customs Clinic at Tel. 02-667-7880-4, Fax. 02-667-7885, e-mail: customs_clinic@customs.go.th. Additional information may also be obtained from Customs ports of entry/exit. Please consult our telephone directory for a Customs office near you. The listing can be found under the "CONTACT US" section.

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Source : The Customs Department

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