

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.