

Board of Investment Announcement
No. 1/2543
Re: Policies and Criteria for Investment Promotion

The previous investment promotion policies, though successful, have been implemented for a long period of time. The financial crisis in the middle of 1997 affected the Thai economy. As a result, tax collection was below target and public debts increased drastically affecting the fiscal position of the government. Moreover, the global economic climate and investment environment have undergone change. Therefore, the Board of Investment deems it appropriate to adjust Thai investment promotion policies and criteria for granting tax privileges in order to respond to the current and future economic and investment situation.

1. The Board of Investment Announcement No. 1/2536 Re: Policies and Criteria for Investment Promotion dated 9th April 1993 shall be repealed.
2. If any announcement of the Board of Investment or the Office of the Board of Investment is in conflict with this announcement, this announcement shall prevail.
3. The Board of Investment prescribes the following policies and criteria for investment promotion.

1. Policies for Investment Promotion

To relieve the fiscal burden of the government and to respond to current and future economic situations, the Board of Investment prescribes new policies as follows:

- 1.1 The efficiency and effectiveness of tax privileges given shall be enhanced. Privileges shall be granted to projects that actually benefit the economy and good governance shall be used for managing and supervising the application of tax and duty privileges. Promoted entities shall report the operating results of their promoted projects to the Board of Investment for review prior to the application of tax and duty privileges for that year.
- 1.2 Every promoted project that has investment capital of 10 million baht and upwards (excluding land and working capital) must obtain ISO 9000 certification or similar international certification. This is to promote development of quality and production standards in Thai industries and, thereby, to enhance the competitiveness of Thai industry in the world market.
- 1.3 Previous conditions on exports and use of local material are repealed so that the criteria for promotion will be in line with international trade and investment agreements.
- 1.4 Special promotion shall be given to regions or areas with low income and inadequate investment facilities. Maximum tax and duty privileges shall be given to these regions or areas.
- 1.5 Importance is given to small and medium industries by applying a minimum level of investment capital of 1 million baht (excluding cost of land and working capital) for projects eligible for promotion.
- 1.6 Priority is given to activities in agriculture and agricultural products, projects related to technological and human resource development, public utilities and infrastructure, environmental protection and conservation and targeted industries.

2. Criteria for Project Approval

In determining the suitability of a project for which investment promotion privileges are requested, the Board of Investment applies the following criteria:

2.1 For a project with investment capital (excluding cost of land and working capital) not exceeding 500 million baht, the following criteria are used:

- 2.1.1 The value added is not less than 20 percent of sales revenue, except projects that manufacture electronic products and parts or process agricultural produce, and projects granted special approval by the Board;
- 2.1.2 Ratio of liabilities to registered capital should not exceed 3 to 1 for a newly established project. Expansion projects shall be considered on a case by case basis;
- 2.1.3 Modern production processes and new machinery are used. In cases where old machinery will be used, its efficiency must be certified by reliable institutions and the Board's approval must be obtained;
- 2.1.4 Adequate environmental protection systems are installed. For projects with a potential environmental threat, the Board shall prescribe special conditions on both the location of the project and the manner of pollution treatment.

2.2 For a project with investment capital (excluding cost of land and working capital) exceeding 500 million baht, criteria under 2.1 shall be used and a feasibility study of the project, as prescribed by the Board, must be submitted.

2.3 For a concession project or privatization of a state enterprise project, the criteria shall be based on the cabinet's decision dated 25 May 1998, as follows:

- 2.3.1 Projects of state enterprises shall not be granted promotion;
- 2.3.2 For a Build Transfer Operate or Build Operate Transfer concession project by the private sector, the state agency that owns the project must submit its project to the Board for consideration prior to any invitation to bid, and bidders shall be informed of any promotional privilege entitled to them, prior to the bidding. In principle, the Board will not consider a project where the private sector pays for a concession, unless such payment is deemed to represent a reasonable investment for the state;
- 2.3.3 For a Build Own Operate project, including a lease by the private sector or rental payment to the state, normal criteria are used;
- 2.3.4 For privatization of state enterprises, only expansions after the privatization shall be considered for promotion.

3. Criteria for Shareholding by Foreign Investors

To relax the limitation of foreign shareholding in manufacturing activities and to facilitate investors on their investment, the following criteria are used:

- 3.1 For a project in agriculture, animal husbandry, fishery, mineral exploration and mining and service business under Schedule One of the Foreign Business Act B.E. 2542, Thai nationals must hold shares totaling not less than 51 per cent of the registered capital;
- 3.2 For manufacturing projects, in all zones, foreign investors may hold a majority or all shares in promoted projects;
- 3.3 The Board may specifically fix the shareholding of foreign investors on some promoted projects when it is deemed appropriate.

4. Investment Zones

4.1 There are three Investment Zones based on economic factors, i.e., the level of income and the availability of infrastructure in each province.

Zone 1 6 Central provinces with high income and good infrastructure: Bangkok, Samut Prakan, Samut Sakhon, Pathum Thani, Nonthaburi and Nakhon Pathom

Zone 2 12 provinces: Samut Songkhram, Ratchaburi, Kanchanaburi, Suphanburi, Ang Thong, Ayutthaya, Saraburi, Nakhon Nayok, Chachoengsao, Chon Buri, Rayong and Phuket

Zone 3 The remaining 58 provinces with low income and less developed infrastructure.

4.2 All areas in the Zone 3 provinces are designated as Investment Promotion Zones.

5. Criteria for Granting Tax and Duty Privileges

5.1 Zone 1 - Approved projects located in Bangkok, Nakhon Pathom, Nonthaburi, Pathum Thani, Samut Prakan and Samut Sakhon shall be granted:

5.1.1 50 per cent reduction of import duty on machinery that is subject to import duty of not less than 10 per cent;

5.1.2 Corporate income tax exemption for 3 years for projects located within industrial estates or promoted industrial zones, provided that such a project with capital investment of 10 million baht or more (excluding cost of land and working capital) obtains ISO 9000 or similar international standard certification within 2 years from its start-up date, otherwise the corporate income tax exemption will be reduced by 1 year;

5.1.3 Exemption of import duty on raw or essential materials used in the manufacturing of export products for 1 year.

5.2 Zone 2 - Approved projects located in Kanchanaburi, Chachoengsao, Chon Buri, Nakhon Nayok, Ayutthaya, Phuket, Rayong, Ratchaburi, Samut Songkhram, Saraburi, Suphanburi and Ang Thong shall be granted:

5.2.1 50 per cent reduction of import duty on machinery that is subject to import duty of not less than 10 per cent;

5.2.2 Corporate income tax exemption for 3 years, increased to 5 years for projects located within industrial estates or promoted industrial zones, provided that such a project with capital investment of 10 million baht or more (excluding cost of land and working capital) obtains ISO 9000 or similar international standard certification within 2 years from its start-up date, otherwise the corporate income tax exemption will be reduced by 1 year;

5.2.3 Exemption of import duty on raw or essential materials used in the manufacturing of export products for 1 year.

5.3 Zone 3 - Approved projects located in the remaining 58 provinces shall be granted:

5.3.1 Exemption of import duty on machinery;

5.3.2 Corporate income tax exemption for 8 years provided that a project with capital investment of 10 million baht or more (excluding cost of land and working capital) obtains ISO 9000 or similar international standard certification within 2 years from its start-up date, otherwise the corporate income tax exemption will be reduced by 1 year;

5.3.3 Exemption of import duty exemption on raw or essential materials used in the manufacturing of export products for 5 years;

5.3.4

A project located in one of the following 40 provinces: Krabi, Kamphaeng Phet, Khon Kaen, Chanthaburi, Chai Nat, Chaiyaphum, Chumphon, Chiang Rai, Chiang Mai, Trang, Trat, Tak, Nakhon Ratchasima, Nakhon Si Thammarat, Nakhon Sawan, Prachuab Khiri Khan, Prachin Buri, Phangnga, Phattalung, Pichit, Phitsanulok, Phetchaburi, Phetchabun, Mukdahan, Mae Hong Son, Ranong, Lop Buri, Lamphang, Lamphun, Loei, Songkhla, Sa Kaew, Sing Buri, Sukhothai, Surat Thani, Nong Khai, Udon Thani, Uttaradit, Uthai Thani, and Ubon Ratchathani shall be granted tax and duty privileges under 5.3.1, 5.3.2 and 5.3.3 and further privileges, as follows:

(1) A project located within industrial estates or promoted industrial zones is entitled to the following privileges:

(1.1) 50 per cent reduction of corporate income tax for 5 years after the exemption period;

(1.2) Double deduction from taxable income of transportation, electricity and water costs for 10 years from the date of first revenue derived from promoted activity;

(2) For a project located outside industrial estates or promoted industrial zones, a deduction can be made from net profit of 25 per cent of the project's infrastructure installation or construction cost for 10 years from the date of first sales, and net profit for one or more years of any year can be chosen for such deduction. The deduction is additional to normal depreciation.

5.3.5

A project located in one of the following 18 provinces: Kalasin, Nakhon Phanom, Narathiwat, Nan, Buri Ram, Pattani, Phayao, Phrae, Maha Sarakham, Yasothon, Yala, Roi Et, Si Sa Ket, Sakhon Nakhon, Sathun, Surin, Nong Bualamphu, and Amnat Charoen shall be granted tax and duty privileges under 5.3.1, 5.3.2, 5.3.3 and further privileges as follows:

(1) 50 per cent reduction of corporate income tax for 5 years after the exemption period;

(2) Double deduction from taxable income of transportation, electricity and water costs for 10 years from the date of first revenue derived from promoted activities;

(3) Deduction can be made from net profit of 25 per cent of the project's infrastructure installation or construction cost for 10 years from the date of first sales, and net profit for one or more years of any year can be chosen for such deduction. The deduction is additional to normal depreciation.

6. Priority Activities

6.1 The Board places priority on promoting the following types of projects:

6.1.1. Agriculture and agricultural products

6.1.2. Direct involvement in technological and human resource development

6.1.3. Public utilities and infrastructure

6.1.4. Environmental protection and conservation

6.1.5. Targeted industries

The Board shall announce the list of priority activities or industries.

6.2 Such projects will be entitled to the following privileges:

- 6.2.1. Exemption of import duty on machinery regardless of location
- 6.2.2. Corporate income tax exemption for eight years, regardless of location
- 6.2.3. Other privileges entitled for each Zone

7. Criteria for Factory Relocation

To encourage industrial decentralization, the Board will grant promotion status to existing activities in the Central area, whether being promoted or not, if they relocate to the other regions. The following criteria are used:

- 7.1 The operation must relocate from Zone 1 to Zone 2 or from Zone 1 or Zone 2 to Zone 3;
- 7.2 The operation must relocate to industrial estates or promoted industrial zones;
- 7.3 The type of activity must be one that is included in the List of Activities Eligible for Promotion and the size of the investment must be in accordance with that specified by the Board;
- 7.4 The existing operation must be closed down and the operation at the relocated location must start within 2 years from the date of receiving the promotion certificate;
- 7.5 The relocated project is granted tax and non-tax privileges as follows:
 - 7.5.1 A project relocated to industrial estates or promoted industrial zones in Zone 2, will be granted corporate income tax exemption for a period of 5 years, provided that such a project with capital investment of 10 million baht or more (excluding cost of land and working capital) obtains ISO 9000 or similar international standard certification within 2 years from the start-up date of its new plant, otherwise the corporate income tax exemption will be reduced by 1 year;
 - 7.5.2 A project relocated to industrial estates or promoted industrial zones in 40 provinces in Zone 3 will be granted the following:
 - (1) Corporate income tax exemption for a period of 8 years, provided that such a project with capital investment of 10 million baht or more (excluding cost of land and working capital) obtains ISO 9000 or similar international standard certification within 2 years from its start-up date, otherwise the corporate income tax exemption will be reduced by 1 year;
 - (2) 50 per cent reduction of corporate income tax for 5 years after the exemption period;
 - (3) Double deduction from taxable income of transportation, electricity and water costs for 10 years from the date of first revenue derived from promoted activity.
 - 7.5.3 A project relocated to industrial estates or promoted industrial zones in 18 provinces in Zone 3 will be granted the following:
 - (1) Corporate income tax exemption for a period of 8 years, provided that such a project with capital investment of 10 million baht or more (excluding cost of land and working capital) obtains ISO 9000 or similar international standard certification within 2 years from the start-up date of its new plant, otherwise the corporate income tax exemption will be reduced by 1 year;
 - (2) 50 per cent reduction of corporate income tax for 5 years after the exemption period;
 - (3) Double deduction from taxable income of transportation, electricity and water costs for 10 years from the date of first revenue derived from promoted activity;
 - (4) Deduction from net profit of 25 per cent of the project's infrastructure installation or construction cost for 10 years from the date of first sales, and net profit for one or more years of any year can be chosen for such deduction. The deduction is additional to normal depreciation.

7.5.4 Activities that are included on the List of Activities Eligible for Promotion, but which are not eligible for corporate income tax exemption, will not be granted such exemption when operations are relocated.

7.6 The corporate income tax exemption shall be granted from the day the first revenue is received from the relocated activities.

7.7 Applications for relocation must be submitted to the Office of the Board of Investment.

8. Requirement to Report Operating Results

To ensure the effectiveness of the tax and duty privileges, to ensure that the use of the privileges granted is correct and in line with the policies for promotion, and to encourage the good governance of promoted projects, all promoted projects must report their annual operating results to the Board for review prior to the Board granting tax and duty privileges for that year.

9. Exemptions

The Board shall follow the above general criteria in considering and approving investment promotion and granting tax and duty privileges, except in the following cases:

9.1 When different tax and duty privileges have been specified to particular activities on the List of Activities Eligible for Promotion;

9.2 When the Board considers that special reasons apply to certain activities;

9.3 To allow projects located in Laem Chabang Industrial Estate or in industrial estates or promoted industrial zones in Rayong Province to be granted privileges under the previous criteria as well as privileges of an Investment Promotion Zone, granted in accordance with Section 35, industrial estates or promoted industrial zones in Rayong Province, which have applied for investment promotion privileges prior to the effective date of this Announcement, and Laem Chabang Industrial Estate shall be designated as an Investment Promotion Zone until 30th December 2004;

9.4 A project located in an industrial estate or promoted industrial zone in Zone 2 and Zone 3 (whose promotion application is submitted prior to the effective date of this Announcement) shall be granted the tax and duty privileges under the original criteria under the previous Board of Investment Announcement No. 1/2536, as follows:

- 9.4.1 A project whose operation is located in an industrial estate or promoted industrial zone in Zone 2, except in Laem Chabang Industrial Estate or in an industrial estate or promoted industrial zone in Rayong Province shall be granted the following privileges:
- (1) 50 per cent reduction of import duty on machinery that is subject to import duty of not less than 10 per cent;
 - (2) Corporate income tax exemption for 7 years provided that such a project with capital investment of 10 million baht or more (excluding cost of land and working capital) obtains ISO 9000 or similar international standard certification within 2 years from its start-up date, otherwise the corporate income tax exemption will be reduced by 1 year;
 - (3) Exemption of import duty on raw or essential materials used in the manufacturing of export

products for 1 year.

9.4.2 A project whose operation is located in an industrial estate or promoted industrial zone in Zone 3, Laem Chabang Industrial Estate or in an industrial estate or promoted industrial zone in Rayong Province shall be granted the following privileges:

- (1) Import duty exemption on machinery;
- (2) Corporate income tax exemption for 8 years, provided that such a project with capital investment of 10 million baht or more (excluding cost of land and working capital) obtains ISO 9000 or similar international standard certification within 2 years from its start-up date, otherwise the corporate income tax exemption will be reduced by 1 year;
- (3) Exemption of import duty on raw or essential materials used in the manufacturing of export products for 5 years;
- (4) 75% import duty reduction on raw or essential materials used in manufacturing for domestic sales for 5 years, with year-by-year approval. Such raw or essential materials shall not be those that are produced or originated in the Kingdom with similar quality and sufficient supply. This does not apply to projects located in Laem Chabang Industrial Estate;
- (5) 50 per cent reduction of corporate income tax for 5 years after the exemption period;
- (6) Double deduction from taxable income of transportation, electricity and water costs for 10 years from the date of first revenue derived from promoted activity;
- (7) Deduction from net profit of 25 per cent of the project's infrastructure installation or construction cost for 10 years from the date of first sales. This amount can be deducted from net profits for one or more years, and any year can be chosen for this deduction. The deduction is additional to normal depreciation.

9.5 A project relocated into an industrial estate or promoted industrial zone (whose promotion application is submitted prior to the effective date of this Announcement) shall be granted the tax and duty privileges under the previous criteria under the Board of Investment Announcement No. 1/2536 as follows:

9.5.1 A project relocated into an industrial estate or promoted industrial zone in Zone 2, except in Laem Chabang Industrial Estate or in an industrial estate or promoted industrial zone in Rayong Province shall be granted corporate income tax exemption for 7 years provided that such a project with capital investment of 10 million baht or more (excluding cost of land and working capital) obtains ISO 9000 or similar international standard certification within 2 years from its start-up date, otherwise the corporate income tax exemption will be reduced by 1 year;

9.5.2

A project relocated into an industrial estate or promoted industrial zone in Zone 3, Laem Chabang Industrial Estate or an industrial estate or promoted industrial zone in Rayong shall be granted:

- (1) Corporate income tax exemption for 8 years provided that such a project with capital investment of 10 million baht or more (excluding cost of land and working capital) obtains ISO 9000 or similar international standard certification within 2 years from the start-up date of its new plant, otherwise the corporate income tax exemption will be reduced by 1 year;
- (2) 50 per cent reduction of corporate income tax for 5 years after the exemption period;
- (3) Double deduction from taxable income of transportation, electricity and water costs for 10 years from the date of first revenue derived from promoted activity;
- (4) Deduction from net profit of 25 per cent of the project's infrastructure installation or construction cost for 10 years from the date of first sales, and net profit for one or more years of any year can be chosen for such deduction. The deduction is additional to normal depreciation.

Any application for the above privileges under 9.4 and 9.5 must be submitted by December 30, 2004.

4. This Announcement shall become effective for applications submitted from 1st August 2000 onward.

5. For companies that have already received investment promotion privileges, who are engaging in activities now classified as "priority activities" (Section 6, Announcement 2/2543), if they had not yet used their tax privileges as of August 1, 2000, they can reapply under the new Investment Promotion List and follow the new conditions specified therein. Applications must be submitted no later than Thursday, December 29, 2000.

Announced on August 1, 2000

(Mr. Chuan Leekpai)
Prime Minister
Board Chairman