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# THAILAND Newsletter

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# Road to Carbon Neutral: Environmental Related Tax Schemes in Thailand

## Overview

Thailand has been focusing on fulfilling its pledges to reduce carbon emissions under the Paris Agreement and to reach carbon neutrality by 2050 through various means, ranging from the acknowledgment of the adoption of innovative technology, the issuance of a number of environmental-related legislations, and the implementation of several incentivizing measures to attract operators and investors, among others.

The nation is now facing multiple extreme environmental hazards where the consequences are deeply felt and no longer just theoretical. As a result, Thailand has been putting in great efforts to participate in various international collaborations to counter these issues both on a short-term and long-term basis.

The risk of long-term climate change is acknowledged by the Thai government, but the real challenge is to devise the appropriate policies to shape the direction of the country towards a greener path and increase resilience against climate change impacts. To direct business and the private sector towards lower carbon emissions, the Thai government has applied various policy instruments, one of which is the tax policy to incentivize (e.g., tax reduction/exemption) and disincentivize (e.g., taxing of certain activities) behavior.

## The Carrot: Tax Incentive Mechanisms

The energy and transportation sectors have been and continue to be the largest contributors to Thailand's greenhouse gas emissions, followed by the manufacturing industry, which also has a large impact on the environment. Therefore, to encourage the private sector to reduce carbon emissions and push the country towards carbon neutrality, the government has been mainly focusing on incentivizing business operators to use clean energy, develop green technologies, deploy electric vehicles, and adopt the Bio-Circular-Green model (click **HERE**), through multiple tax incentives. These schemes are mainly governed by three authorities: the Thai Revenue Department (RD), the Excise Department, and the Board of Investment of Thailand (BOI). Here are some examples of the environmental-related tax incentives:

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- The RD grants corporate income tax and/or personal income tax exemptions for various business activities including, for example: expenditures paid for the research and development (R&D) on technology and innovation to a certain state agency or private entity as announced by the RD, expenditures on certain biodegradable plastics as announced by the RD and certified by the Office of Industrial Economics, expenditures on the deployment of energy-saving equipment or machinery with qualifications as announced by the RD (already expired), and net profits from the sale of carbon credits incurred from operating the Certified Emission Reductions (CERs) Project and Voluntary Emission Reductions (VERs) Project to reduce greenhouse gas as announced by the RD (*already expired*).
- The Excise Department grants reduction or exemption on import duties on specific types of electric vehicles (EV) until 31 December 2023, under specified conditions (for more details, please see our **newsletter**).
- The BOI grants, among other incentives, corporate income tax exemptions up to eight years for basic incentives, depending on the business activities and requirements as approved by the BOI. Projects with R&D on technology and innovation, or situated in specific promoted areas may be eligible for additional years of corporate income tax exemptions (i.e., up to the total of 13 years maximum), if they meet requirements as approved by the BOI. The business activities relating to environmental promotions are, for example: EV manufacturing, charging stations, and battery EV platforms; deployment of carbon capture, utilization, and storage by certain industrial operators (for more details, please see our **newsletter**); solar cells manufacturing; and investment in renewable energy production e.g. from waste, biomass and biogas.

## The Stick: Possible Taxes to be Levied

While Thailand's economy relies heavily on the manufacturing industries and export, the business operators do not always face such costs relating to the impact of their actions on the climate or harmful results of the production process on unrelated third parties (negative externalities). One of the effective tools to address such externality costs is through taxation.

Currently, Thailand only adopts the implicit taxes that apply to certain carbon-emitting activities, for example, the excise duties on oil and oil products, electrical appliances, motorcycles, and automobiles. However, the government is now mulling over the implementation of explicit carbon pricing to discourage carbon-intensive activities.

Generally, there are broadly two forms of carbon pricing-emission trading schemes (ETS) and carbon taxes. The ETS (or cap-and-trade) in Thailand are only voluntary in nature, meaning that the government has never set a limit on emissions and issued emission permits within such limit that each allows. ETS compels the business operator that expects not to have enough permits to either cut back on their emissions, or buy permits from another operator. As a result, an additional cost will be imposed with respect to the relevant sectors.

Further, Thailand is considering whether to move towards a carbon tax, which is a direct tax levied on activities and products against an amount of emissions. Imposing a carbon tax-setting a definite price on carbon-could make the use of fossil fuels

more expensive and encourage a transition to alternative energy, reduce consumption, and increase energy efficiency. The tax levied can also be used towards subsidizing environmental restoration and other means of emission mitigation.

## Looking Forward

As taxes can serve as both incentive and penalty, they can be one of the most effective tools in battling climate change. As mentioned above, up until now, Thailand has focused on utilizing the incentive side of taxation. However, going forward, the government actively demonstrates its intent to experiment with multiple new tax schemes with the penalty approach.

To echo global developments, the most distinct environmental-related tax is undeniably carbon pricing. In fact, it is included in Thailand's National Climate Change Master Plan, where the carbon market has been identified as a tool to potentially help achieve the targeted emission reductions. The upcoming Climate Change Bill (click **HERE**) to be passed will also outline the specific instruments needed.

In addition, the BCG model set out by the National Agenda further addresses the environmental concerns over waste management and air pollution. In that regard, relevant government agencies, led by the Pollution Control Department, are currently formulating updated national waste management plans to incorporate the polluter pays principle, the collaboration between public and private sectors in waste management, and the extended producer responsibility principle, where certain tax mechanisms may be implemented as a tool to promote these changes.

It is apparent that to reach the country's carbon-neutral goal, the government must pour great efforts into developing these relevant environmental-related tax schemes.

## Final Thoughts

With current momentum to push the country towards clean energy transition and net zero emission, the government will have to navigate the existing regulations and policies, as environmental-tax schemes will not work in isolation. While carbon pricing may allow private sectors/businesses to be creative on which technologies to adopt and decide how best to lower emissions, it may also increase the cost of providing goods and services for suppliers and consumers. Against this backdrop, there may still be a long and challenging road ahead for the government before the actual implementation of carbon pricing can take place in Thailand. Nevertheless, exporters of carbon-intensive products will still have to take into consideration the regulations at the destination markets, as carbon border adjustment mechanisms may be imposed where the prices of the traded products will be adjusted to include the prices of emission.

To discuss the legal topics included in this briefing in further detail, please contact the authors listed in the left-hand column.

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