

**REVENUE REGULATIONS NO. 2-2005** issued on February 15, 2005 implements relevant provisions of Republic Act Nos. 7227, 7916, 7903 and 7922 otherwise known as “Bases Conversion and Development Act of 1992,” “Special Economic Zone Act of 1995,” “Zamboanga City Special Economic Zone Act of 1995” and “Cagayan Special Economic Zone Act of 1995,” respectively.

All ECOZONE-registered enterprises, CAGAYAN-ECOZONE registered enterprises and ZAMBO-ECOZONE registered enterprises, which are covered by the special tax regime of 5%, including all SUBIC-ECOZONE registered enterprises doing business within the Zone shall enjoy the following tax exemptions and incentives:

- a. Exemption from national internal revenue taxes on importations of raw materials for manufacture and actually manufactured into finished products and capital goods and equipment needed for their business operation within the Zone.
- b. Exemption from the national internal revenue taxes, such as gross receipts tax, Value-Added Tax (VAT), ad valorem and excise taxes on their sales of goods and services for which they shall otherwise have been directly liable except for local sales.
- c. Exemption from franchise, common carrier or VAT and other percentage taxes on public and service utilities and enterprises within the Zone for services rendered within the Zone.
- d. Preferential tax treatment on income earned/derived from business operations within the Zone or from foreign sources. However, in the case of telecommunications service, the income of the enterprise within the Zone shall be net of the share of the foreign telecommunications company and in the case of common carriers by land, air or water, only that portion of the income and expenses for the transport of cargoes and passengers within the Zone shall be covered by the preferential income tax treatment and what is not covered shall be subject to the regular corporate income tax.
- e. Purchases from enterprises in the Customs Territory of raw materials forming part of finished goods exported by the Zone-registered enterprises shall be considered effectively zero-rated or exempt for VAT purposes depending on the fiscal incentives availed of by the Zone registered enterprise. The VAT implications of transaction within, into and outside the Zone will be covered by a separate Revenue Regulations.
- f. Zone registered enterprises may generate income from sources within the Customs Territory of up to 30% of its total income from all sources only. All of the income of Zone registered enterprises generated from sources within the Customs Territory shall be subject to the internal revenue laws of the Customs Territory and the regular internal revenue taxes and rate imposed for enterprises in the Customs Territory.
- g. Carriers who undertake to transship articles to and/or from the Zone to a Customs Bonded warehouse within the Customs Territory shall be bonded in an amount to be determined by the SBMA, PEZA, ZAMBO-ECOZONE Authority or CEZA and Bureau of Customs, which shall not be less than ₱ 50,000 pesos conditioned upon the carrier transporting and delivering without delay to the Collector of Customs at the port of destination/export.
- h. Articles which are manufactured in the Zone and exported therefrom to a foreign country shall, upon subsequent importation into customs territory, be subject to the laws on importation applicable to like articles manufactured in a foreign country.

All Zone-registered enterprises and service establishments doing business within the Zone shall have the following tax and fiscal obligations:

- a. Zone-registered enterprises doing business within the Zone shall pay 5% of gross income earned, broken down as specified in the Regulations. The equivalent amount of tax paid/payable to the National Government of the Philippines shall be considered for purposes of any claim for credit against taxes paid to foreign government by the foreign corporation accredited by the SBMA, PEZA, ZAMBO-ECOZONE Authority or CEZA to operate within the Zone.
- b. Zone-registered enterprises operating within the Zone shall be responsible for the safekeeping and accounting of all articles received by them. Articles which are missing or cannot be accounted for in the Zone shall be presumed to have been transferred to the Customs Territory without permit and therefore subject to taxes and duties.

Articles which are found in the Zone but cannot be accounted for in the records of a zone-registered enterprise shall be treated as having been received in the Zone without permit and therefore should be reported to the SBMA, PEZA, ZAMBO-ECOZONE Authority or CEZA and the Bureau of Customs.

- c. A zone-registered enterprise operating within the Zone shall be constituted as withholding agent in any of the following cases: (1) if it acts as an employer and its employees receive compensation income subject to the withholding tax; or (2) if it makes income payments to individuals or corporations subject to the expanded withholding tax; or (3) if it makes payment/remittance of certain income subject to the final withholding tax.
- d. Interest from any Philippine currency bank deposits and yield or any other monetary benefit from deposit substitutes, and from trust fund and similar arrangements received by a zone registered enterprise engaged in business within the Zone shall be subject to the internal revenue taxes under the National Internal Revenue Code (NIRC), as amended.

Foreign articles removed, withdrawn or otherwise disposed to the customs territory, shall be subject to the payment of customs duties and internal revenue taxes as ordinary importations. Articles removed from customs territory will be presumed to be foreign unless there is sufficient evidence presented to satisfy Customs officials that they are domestic articles.

All income derived by persons and by all service establishments rendering their services within the ECOZONES, whether registered or not with PEZA, which may qualify as ECOZONE Service Enterprise shall be subject to all internal revenue taxes under the NIRC, as amended.

All service establishments registered with the PEZA as ECOZONE locators, which export their services or are rendering their services abroad through the use of information technologies as well as all income derived by service establishments within SUBIC-ECOZONE, ZAMBO-ECOZONE and CAGAYAN-ECOZONE shall be subject to 5% preferential tax rate, provided that such services are paid in foreign currency inwardly remitted through the Banko Sentral ng Pilipinas.

All income derived within SUBIC-ECOZONE, ZAMBO-ECOZONE and CAGAYAN-ECOZONE by persons shall be subject to withholding taxes under existing tax laws, rules and regulations.

For purposes of computing the total 5% tax rate imposed by Republic Act Nos. 7227, 7903, 7922 and 7916, the cost of sales or direct cost shall consist only of the cost or expense items specified in the Regulations, which shall be computed in accordance with Generally Accepted Accounting Principles (GAAP).