Philippines

Contact

Senen M. Quizon
Tax Principal
smquizon@deloitte.com
+63 2 8857 1569

Walter L. Abela, Jr.
Tax Partner
wabela@deloitte.com
+63 2 8581 9034

What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

A second package of proposed tax reforms under the Comprehensive Tax Reform Program (CTRP), referred to as the Corporate Recovery and Tax Incentives for Enterprises (CREATE) bill, is expected to be enacted at the end of the year with an effective date of 1 January 2021. The bill proposes to lower the corporate income tax rate to 25% in 2021 (from 30%), with a 1% reduction each year beginning in 2023 and continuing through to 2027 (resulting in a 20% rate in 2027).

New enterprises will be able to choose from various tax incentives (depending on their location and industry) under the CREATE bill; sunset provisions will allow existing enterprises to enjoy their current incentives.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
Income tax holiday	Exemption from income tax for a period of four to eight years (four years for non-pioneer projects and six years for pioneer projects, extendible for up to two years).	Exempt	All expenses	Limited to enterprises registered with the Philippine Economic Zone Authority (PEZA) or Board of Investments (BOI).
5% tax on gross income (in lieu of 30% corporate income tax on net income).	Upon expiry of the tax holiday for PEZA enterprises, the 5% tax on gross income will apply to income derived from registered activities. Taxpayers registered within the freeport zones also are subject to the 5% tax on gross income. Taxpayers subject to the 5% tax on gross income also are exempt from all national and local taxes.	5%	Direct expenses related to the cost of services or goods sold may be deducted from gross revenue to arrive at gross income.	Operating and administrative expenses are not deductible from gross revenue.
Zero rate of value-added tax (VAT) on local purchases of goods and services.	Purchases made by BOI- and PEZA-registered enterprises that relate to their registered activities.	0%	Local purchases of goods and services.	Limited to BOI- and PEZA-registered enterprises and certain taxpayers under special laws.

Industries most often affected by government incentives in country

●	**Technology, Media & Telecom**	●	**Financial Services**
	Telecom, Media & Entertainment		Banking & Capital Markets
	Technology		Insurance
●	**Consumer**		Investment Management
	Consumer Products		Real Estate
	Retail, Wholesale & Distribution	●	**Life Sciences & Health Care**
	Automotive		Health Care
	Transportation, Hospitality & Services		Life Sciences
●	**Energy, Resources & Industrial**	●	**Government & Public Services**
	Power & Utilities		Health & Social Care
	Mining & Metals		Defense, Security & Justice
	Oil, Gas, & Chemicals		Civil Government
	Industrial Products & Construction		International Donor Organizations
			Transport

Philippines

Contact

Senen M. Quizon
Tax Principal
smquizon@deloitte.com
+63 2 8857 1569

Walter L. Abela, Jr.
Tax Partner
wabela@deloitte.com
+63 2 8581 9034

Type	National incentive?	State, provincial, regional or local incentives?[1]	Filing deadlines imposed?	Is the claim made in advance or arrears?[2]	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation							
Research & development (R&D)	PERMANENT INCENTIVE	NO	PERMANENT INCENTIVE NOT APPLICABLE	National: Varies Local: Not applicable	Any taxpayer may claim R&D expenses as deductions outright or deferred over 60 months.	Not applicable	Not applicable
Environmental sustainability							
Sustainability	PERMANENT INCENTIVE	NO	PERMANENT INCENTIVE NOT APPLICABLE	National: Not applicable Local: Not applicable	Qualified enterprises that generate green jobs, duly certified by the Secretary of the Climate Change Commission or his duly authorized representative, shall be entitled to a special deduction from the taxable income equivalent to 50% of the total expense for skills training and research development expenses subject to certain conditions.	Not applicable	Not applicable
Other							
Board of Incentives	TEMPORARY INCENTIVE	NO	PERMANENT INCENTIVE NOT APPLICABLE	National: Not applicable Local: Not applicable	Certain qualified taxpayers engaging in preferred activities or industries can register with the BOI to enjoy incentives such as an income tax holiday for 3–6 years, an exemption on duty and other fees, and 0% VAT on local purchases of goods and services.	Not applicable	Not applicable
Philippine Economic Zone Authority, Subic Bay Freeport Zone, Clark Freeport Zone, Special Ecozones	TEMPORARY INCENTIVE	NO	PERMANENT INCENTIVE NOT APPLICABLE	National: Not applicable Local: Not applicable	Incentives are available to qualified enterprises and include an income tax holiday for 3–6 years, a 5% tax on gross income after tax holiday, tax and duty-free importation, 0% VAT on local purchases of goods and services, and special visas for foreign nationals.	Not applicable	Not applicable

Key: = PERMANENT INCENTIVE = TEMPORARY INCENTIVE = NEGOTIABLE = NO = LIMITED APPLICABILITY = NOT APPLICABLE

Notes:

1. Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
2. If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.

Philippines

Contact

Senen M. Quizon
Tax Principal
smquizon@deloitte.com
+63 2 8857 1569

Walter L. Abela, Jr.
Tax Partner
wabela@deloitte.com
+63 2 8581 9034

Country background

The Philippines has been undergoing major tax reform. The Tax Reform for Acceleration and Inclusion Act (TRAIN), which became effective on 1 January 2018, is the first in a series of tax reforms that the government has introduced under its Comprehensive Tax Reform Program (CTRP). The TRAIN has introduced reforms in the areas of income tax, value-added tax (VAT), excise tax, estate and gift taxes, and tax administration. Under the second package of reforms, the government proposes to lower the corporate income tax rate (which is currently 30%) to 25% in 2021, with a 1% reduction each year beginning in 2023 and continuing through 2027 (at which time the rate will be 20%).

To encourage investments, particularly in preferred sectors of the economy, the Philippines offers various incentive schemes to qualifying enterprises depending on the location of the enterprise and its proposed business activities. The most significant incentive programs are those provided to enterprises registered with the Board of Investments (BOI) under the Omnibus Investments Code (OIC), the Philippine Economic Zone Authority (PEZA), and other economic and freeport zones.

Innovation incentives

R&D deduction

Nature of incentives

The Philippines grants a tax deduction for qualifying R&D expenditure. Such expenditure may be treated as ordinary and necessary expenses that are fully deductible from gross income in the year paid or incurred, or deferred and allowed as a deduction ratably distributed over a period of no less than 60 months.

R&D expenditure may be deferred if the following conditions are fulfilled:

- The expenditure is paid or incurred by the taxpayer in connection with the taxpayer's trade, business, or profession;
- The expenditure is not treated as a current expense; and
- The expenditure is chargeable to a capital account but not chargeable to property that is subject to depreciation or depletion.

Eligible industries and qualifying costs

Eligibility is broad and includes both resident and nonresident taxpayers and is not limited to any specific industry.

The following expenditure does not qualify for the deduction:

- Expenditure incurred on the acquisition or improvement of land, or for the improvement of property to be used in connection with the R&D, which is of a nature that is subject to depreciation or depletion; and
- Expenditure paid or incurred for ascertaining the existence, location, extent, or quality of a deposit of ore or other mineral, including oil or gas.

Other concerns

R&D expenditure must be substantiated by invoices and/or receipts issued in the taxpayer's name in order for the taxpayer to claim the deduction.

Other incentives

BOI

The BOI (which is part of the Department of Trade and Industry (DTI)) is the lead government agency responsible for the promotion of investments in the Philippines. Under OIC laws, an investor may register with the BOI to enjoy the following incentives and other benefits, provided the investment is in a preferred area of economic activity specified by the BOI in the Investment Priorities Plan (IPP):

- Income tax holidays:
  - Six years for projects with pioneer status and for projects located in a less developed area;
  - Four years for new projects with non-pioneer status;
  - Three years for expansion/modernization projects;
- Duty exemption on imported capital equipment, spare parts, and accessories;
- Exemption from wharfage dues and export tax, duty, impost, and fees;

Philippines

Contact

Senen M. Quizon
Tax Principal
smquizon@deloitte.com
+63 2 8857 1569

Walter L. Abela, Jr.
Tax Partner
wabela@deloitte.com
+63 2 8581 9034

- Tax exemption on breeding stocks and genetic materials; and
- Tax credits on imported raw materials.

To qualify for registration with the BOI and to benefit from the incentives, the taxpayer must meet certain requirements, such as participating in preferred enterprises or activities or contributing to the national development of the preferred area or the national economy in general.

Qualifying enterprises within the IPP include:

- Manufacturing enterprises involved in agro-processing, the manufacture of industrial goods, and the manufacture of machinery, equipment, and modular housing components;
- Strategic services enterprises involved in telecommunications, state-of-the-art engineering and construction, industrial waste treatment, aircraft repair and maintenance, creative industries, and knowledge-based services;
- Energy enterprises involved in power generation projects utilizing conventional fuel and the establishment of battery energy storage systems;
- Agriculture, fishery, and forestry enterprises involved in commercial production, production of seeds and seedlings, and establishment of nurseries;
- Residential housing enterprises involved in the development of affordable housing in urban areas;
- Medium-sized and large enterprises in the agribusiness and tourism sectors that have inclusive business models;
- Healthcare services enterprises involved in general and specialty hospitals, including drug rehabilitation centers;
- Enterprises with environmental or climate change-related projects involved in the manufacture and assembly of goods and the establishment of energy efficient facilities and green ship recycling;
- Infrastructure and logistics enterprises involved in the establishment and operation of vital physical infrastructure including airports, seaports, air, land, and water transport, pipeline projects for oil and gas, bulk water treatment, and public-private partnership projects; and
- Enterprises that are innovation drivers involved in R&D activities, conducting clinical trials, innovation centers, commercialization of new and emerging technologies, and products of government-funded R&D.

Special Economic Zones

PEZA

PEZA is the government agency tasked with promoting investment, providing assistance, registering businesses, granting incentives, and facilitating the business operations of investors in export-oriented manufacturing and service facilities in areas designated as PEZA special economic zones (referred to as ecozones). Ecozones are highly developed, or have the potential to be developed into, agro-industrial, industrial, tourist/recreational, commercial, or financial centers. Enterprises that register with PEZA and locate their operations within ecozones are granted incentives that are more extensive than those granted under the OIC to enterprises registered with the BOI.

Qualified enterprises under PEZA include:

- Export manufacturing enterprises that manufacture, assemble, or process products of which at least 70% are exported;
- IT enterprises that provide IT services with 70% of total revenue derived from customers in foreign jurisdictions; eligible IT services include IT-enabled services (e.g., business process outsourcing, call centers, data encoding, transcribing and processing), application software development for business, media, e-commerce, education, and entertainment, and content development for multimedia or internet purposes;
- Tourism enterprises that operate sports and recreation centers, accommodations, convention and cultural facilities, and other special interest attractions, activities, and establishments of which foreign tourists are the primary clientele;
- Medical tourism enterprises that provide medical health services (as endorsed by the Department of Health) primarily to foreign patients;
- Agro-industrial export manufacturing enterprises that process or manufacture agricultural products for export;
- Agro-industrial biofuel manufacturing enterprises that manufacture agricultural crops utilizing commercial processing to create sources of clean energy, such as biofuel;
- Logistics services enterprises that operate warehouse facilities for the storage, deposit, and safekeeping of goods for PEZA-registered export manufacturing enterprises; for imports or locally sourced raw materials or semi-finished goods for resale to PEZA-registered export manufacturing enterprises for use in their export manufacturing activities; for direct export; or for consignment to PEZA-registered export manufacturing enterprises for eventual export;

Philippines

Contact

Senen M. Quizon
Tax Principal
smquizon@deloitte.com
+63 2 8857 1569

Walter L. Abela, Jr.
Tax Partner
wabela@deloitte.com
+63 2 8581 9034

- Economic zone developers and operators that develop, operate, and maintain ecozones such as manufacturing ecozones, IT parks, tourism ecozones, medical tourism ecozones, agro-industrial ecozones, and retirement ecozones (including required infrastructure, facilities, and utilities);
- Facilities enterprises that construct, operate, and manage buildings and other facilities in ecozones for lease to PEZA-registered enterprises; and
- Utilities enterprises that establish, operate, and maintain light and power systems, water supplier systems, and distribution systems in ecozones.

Depending on the type of enterprise and business activity, an enterprise operating within an ecozone is entitled to incentives granted to PEZA-registered enterprises under the Special Economic Zone Act of 1995 (Republic Act No. 7916), in addition to other incentives. Once the business activities are registered with and approved by PEZA, taxpayers can benefit from the incentives, which include:

- An income tax holiday of four years for a non-pioneer project, six years for a pioneer project, or three years for an expansion project;
- Upon expiry of the income tax holiday, a 5% tax on gross income (rather than the 30% corporate income tax on net income) and exemption from all national and local taxes;
- Tax- and duty-free importation of raw materials, capital equipment, machinery, and spare parts;
- A tax credit for import substitution;
- Exemption from wharfage dues and export tax, impost, or fees;
- Zero-rated VAT on local purchases of goods and services;
- Tax credits for exporters using local materials as inputs as provided by the Export Development Act of 1994;
- An additional deduction for incremental labor and training expenses;
- Simplified import-export procedures; and
- Authorization to employ nonresident foreign nationals in supervisory, technical, or advisory positions.

Subic Bay Freeport
The Subic Bay Freeport (SBF) is a special economic and freeport zone managed and operated by the Subic Bay Metropolitan Authority (SBMA). Occupying the former US naval facility, it was created under the Bases Conversion Development Act of 1992 and is a self-sustaining tourism, industrial, commercial, financial, and investment center to attract and promote foreign investment, and generate employment opportunities. It is operated and managed as a separate customs territory, ensuring the free movement of goods and capital within, into, and out of the SBF.

Investors can register with the SBMA as an SBF enterprise or an SBF regional enterprise. An SBF regional enterprise is a multinational enterprise whose purpose is to engage in regional or international trade or services and that establishes within the SBF its seat of management and the situs of its business transactions.

Enterprises registered with the SBMA and located within SBF can take advantage of the following incentives, among others:

- A 5% tax on gross income (rather than the 30% corporate income tax on net income) and exemption from all national and local taxes;
- Tax- and duty-free importation of capital equipment, raw materials, supplies, and spare parts;
- Allowable income from sources within the Philippine customs territory of up to 30% of total income;
- Liberalized foreign ownership requirements;
- Visa-free entry for 14 days, which may be renewed; and
- Special visas for foreign nationals.

Clark Freeport Zone
The Clark Freeport Zone (CFZ) is another special economic and freeport zone. Enterprises locating within the CFZ must register with the Clark Development Corporation (CDC) and are entitled to the same incentives as those granted to enterprises in the SBF. In addition, special ecozones may be created within the CFZ by the president, upon the recommendation of PEZA and subject to concurrence by directly affected local government units. Registered enterprises in such ecozones are entitled to the same tax and duty incentives under the OIC, provided that PEZA registers, regulates, and supervises all enterprises within the ecozones.