

THE PHILIPPINES
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Corporate Recovery and Tax Incentives for Enterprises Act or CREATE

- RA 11534 was signed by the President on 26 March 2021.
- Effectivity: 15 days after publication.

Amendments to the NIRC

- ❑ **Reduction of Corporate Income Tax (CIT) Rate from 30% to 25% effective 1 July 2020** for domestic corporations, foreign corporations and non-resident foreign corporations.
 - CIT rate of 20% for domestic corporations with Net Taxable Income not exceeding 5M and with total assets (excluding land) not exceeding 100M.
 - Additional deduction from taxable income $\frac{1}{2}$ of the value of labor training expense for skills development.

- ❑ **VAT EXEMPT TRANSACTIONS**
 - Sale or importation of drugs for cancer, mental health, tuberculosis, and kidney diseases effective 1 January 2021.

COVID-Related Interventions under the NIRC

❑ VAT EXEMPT TRANSACTIONS

➤ Sale or importation of the following (1 January 2021 to 31 December 2023):

- Capital equipment, its spare parts and raw materials necessary for the production of PPEs;
- All drugs, vaccines and medical devices for the treatment of COVID-19; and
- Drugs for treatment of COVID-19 for use in clinical trials.

❑ **PERCENTAGE TAX FOR NON-VAT REGISTERED PERSON** (3% current rate); 1% from 1 July 2020 to 30 June 2023)

❑ **Proprietary educational institutions and hospitals** (10% current tax rate); 1% from 1 July 2020 to 30 June 2023.

❑ **Minimum Corporate Income Tax** (MCIT- 2% current rate); 1% from 1 July 2020 to 30 June 2023.

❑ **ROHQ 10% current**; subject to regular income tax, i.e. 25% on 1 January 2022.

TITLE XIII INCENTIVES

Scope and Coverage

CREATE covers all IPAs. IPAs shall maintain their functions under the laws governing them, except to the extent modified by CREATE.

a. New Incentives Regime for Qualified Projects

b. Approval or disapproval of incentives:

- **IPAs** - projects with investment capital of Php1B and below.
- **FIRB** - projects with investment capital of more than Php1B.

TITLE XIII INCENTIVES

Menu of Incentives

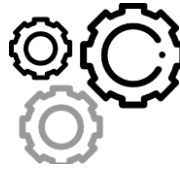
- 4-7 Income Tax Holiday (ITH);
- 5% Special Corporate Income Tax (SCIT) based on Gross Income Earned, in lieu of all national and local taxes; 10 years
- Enhanced Deductions
- Duty exemption on importation of Capital Equipment, raw materials, spare parts, or accessories
- VAT exemption on importation and VAT Zero-rating on local purchases

Enhanced Deductions:

- Depreciation allowance of assets- additional 10% for buildings; and additional 20% for machineries and equipment
- 50% additional deduction on labor expense
- 100% additional deduction on R&D
- 100% additional deduction on training expense given to Filipino employees
- 50% additional deduction on domestic input expense
- 50% additional deduction on power expense;
- Deduction for reinvestment allowance to manufacturing industry - the amount reinvested to a maximum of 50%
- Enhanced *NOLCO*

Strategic Investment Priorities Plan (SIPP)

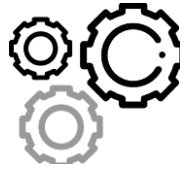
- ❑ BOI shall formulate the SIPP.
- ❑ The SIPP shall define the coverage of the tiers and provide the conditions for the qualifying activities.



- ❑ TIER I
 - HIGH POTENTIAL FOR JOB CREATION;
 - TAKE PLACE IN SECTORS WITH MARKET FAILURES RESULTING IN UNDERPROVISION OF BASIC GOODS AND SERVICES;
 - GENERATE VALUE CREATION THROUGH INNOVATION, UPGRADING OR MOVING UP THE VALUE CHAIN;
 - PROVIDE ESSENTIAL SUPPORT FOR SECTORS THAT ARE CRITICAL TO INDUSTRIAL DEVELOPMENT; OR
 - EMERGING OWING TO POTENTIAL COMPARATIVE ADVANTAGE.

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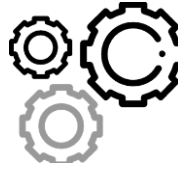


□ TIER II

- **ACTIVITIES THAT PRODUCE SUPPLIES, PARTS AND COMPONENTS AND INTERMEDIATE SERVICES THAT ARE NOT LOCALLY PRODUCED BUT ARE CRITICAL TO INDUSTRIAL DEVELOPMENT; AND**
- **IMPORT-SUBSTITUTING ACTIVITIES, INCLUDING CRUDE OIL REFINING.**

Strategic Investment Priorities Plan (SIPP)

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❑ TIER III

- RESEARCH AND DEVELOPMENT RESULTING IN DEMONSTRABLY SIGNIFICANT VALUE-ADDED, HIGHER PRODUCTIVITY, IMPROVED EFFICIENCY, BREAKTHROUGHS IN SCIENCE AND HEALTH, AND HIGH-PAYING JOBS;
- GENERATION OF NEW KNOWLEDGE AND INTELLECTUAL PROPERTY REGISTERED AND/OR LICENSED IN THE PHILIPPINES;
- COMMERCIALIZATION OF PATENTS, INDUSTRIAL DESIGNS, COPYRIGHTS AND UTILITY MODELS OWNED OR CO-OWNED BY A REGISTERED BUSINESS ENTERPRISE;
- HIGHLY TECHNICAL MANUFACTURING; OR
- CRITICAL TO THE STRUCTURAL TRANSFORMATION OF THE ECONOMY AND REQUIRE SUBSTANTIAL CATCH-UP EFFORTS.

Period of Availment

FOR EXPORTERS

LOCATION/ INDUSTRY TIERS	TIER I	TIER II	TIER III
NATIONAL CAPITAL REGION	4 ITH + 10 ED/SCIT	5 ITH + 10 ED/SCIT	6 ITH + 10 ED/SCIT
METROPOLITAN AREAS OR AREAS CONTIGUOUS AND ADJACENT TO THE NATIONAL CAPITAL REGION	5 ITH + 10 ED/SCIT	6 ITH + 10 ED/SCIT	7 ITH + 10 ED/SCIT
ALL OTHER AREAS	6 ITH + 10 ED/SCIT	7 ITH + 10 ED/SCIT	7 ITH + 10 ED/SCIT

FOR DOMESTIC MARKET ACTIVITIES

LOCATION/ INDUSTRY TIERS	TIER I	TIER II	TIER III
NATIONAL CAPITAL REGION	4 ITH + 5 ED	5 ITH + 5 ED	6 ITH + 5 ED
METROPOLITAN AREAS OR AREAS CONTIGUOUS AND ADJACENT TO THE NATIONAL CAPITAL REGION	5 ITH + 5 ED	6 ITH + 5 ED	7 ITH + 5 ED
ALL OTHER AREAS	6 ITH + 5 ED	7 ITH + 5 ED	7 ITH + 5 ED

Additional Incentives

- ❑ **Relocation projects.** Registered enterprises that fully relocate outside of NCR will be entitled to an additional 3 years of ITH.
- ❑ **Disaster/conflict area.** Registered enterprises that locate in areas recovering from disasters or conflict will be entitled to an additional 2 years of ITH.

OTHER FEATURES OF CREATE

- ❑ **REMOVAL OF NATIONALITY AND EXPORT BIAS:** The requirement for a Foreign Owned Business Enterprise to be either a pioneer project or export 70% of its total production is no longer required.

- ❑ Subject to the qualifications set forth in the SIPP and performance review by the FIRB, the following may qualify to avail of incentives under CREATE:
 1. **EXPANSION PROJECTS;** and
 2. **EXISTING REGISTERED** projects or activities prior to the effectivity of CREATE.

- ❑ After the expiration of the transitory period (10years), **EXPORT ENTERPRISES** registered prior to the effectivity of CREATE shall have the option to reapply and avail of SCIT for 10 years, subject to the conditions and qualifications set forth in the SIPP and performance review by the FIRB.



Power of the President

- ❑ Upon the recommendation of the FIRB, the President may:
 - ✓ modify the mix, period or manner of availment of incentives provided under CREATE; or
 - ✓ Craft the appropriate financial support package for a highly desirable project or a specific industrial activity.
- ❑ For highly desirable projects-minimum investment capital of Php50B or at least 10,000 direct local employment generation.
- ❑ Total Period of availment will not exceed forty (40) years, and ITH availment will not exceed 8 years.
- ❑ For this purpose, financial support includes utilization of government resources such as land use, water appropriation, power provision, budgetary support provision under the Annual General Appropriations Act.

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Transitory Provisions

- Those under ITH - continue to avail based on their existing terms and conditions
- Those under the 5% GIE regime - 10-year transition on 5% GIE

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