

ADVISORY ON VAT ZERO RATING INCENTIVE ON LOCAL PURCHASES

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BIR REVENUE REGULATION NO. 3-2023

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Amending certain provisions of Revenue Regulations (RR) No. 16-2005, as amended by RR No. 21-2021, to implement Sections 294 (E) and 295 (D), Title XIII of the National Internal Revenue Code of 1997, as amended by RA No. 11534 (CREATE Act), and Section 5, Rule 2 and Section 5, Rule 18 of the CREATE Act Implementing Rules and Regulations, as amended.

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- I. *Rule to determine whether or not local purchases are directly and exclusively used in the registered project or activity*

Local purchases of goods and/or services are considered directly attributable to the registered project or activity if without said goods and/or services the registered activity or project cannot be carried out.

- II. *Local purchases not directly and exclusively used in the registered project or activity*

General Rule: local purchases of goods and/or services relating to the following services shall **not be considered as "directly and exclusively used"** in the registered project or activity of a registered export enterprise:



Janitorial Services



Consultancy Services



Security Services



Marketing And Promotion



Financial Services



Administrative Operations (such as Human Resources, Legal, and Accounting)

Exception: Registered export enterprises (REE) are not precluded from providing supporting evidence that the above services are indeed directly and exclusively used in its registered project or activity.

- III. *Treatment of Health Maintenance Organization (HMO) plans*

HMO plans of REEs for employees who are directly and exclusively involved in the operations of the registered project or activity and forming part of their

compensation package shall be **considered as directly and exclusively used** in the registered project or activity of the REE subject to existing conditions for availment.

IV. Treatment of purchased goods and/or services used in both the registered project or activity and administrative operations

General Rule: The REE shall adopt a method to best allocate the purchase of goods and/or services.

Exception: If a proper allocation cannot be determined, the purchases shall be subject to twelve percent (12%) value-added tax (VAT).

V. Removal of VAT zero-rating approval by the BIR

Local suppliers of goods and/or services to REEs shall **no longer be required** to apply approval of VAT zero-rating with the BIR. VAT zero-rating shall be availed of on the basis of the VAT zero-rating certification issued by the investment promotion agency without prejudice to a post audit by the BIR.

Pending applications at the time of effectivity of RR No. 3-2023 shall be accorded VAT zero-rating treatment from the date of filing of the application subject to post audit by the BIR.

Source:
Revenue Regulation No. 3-2023