

**[BIR REVENUE REGULATIONS NO. 16-99,
September 27, 1999]**

**AMENDING REVENUE REGULATIONS NO. 1-95, AS AMENDED,
AND OTHER RELATED RULES AND REGULATIONS TO IMPLEMENT
THE PROVISIONS OF PARAGRAPHS (B) & (C) OF SECTION 12 OF
REPUBLIC ACT NO. 7227, OTHERWISE KNOWN AS THE "BASES
CONVERSION AND DEVELOPMENT ACT OF 1992" RELATIVE TO
THE TAX INCENTIVES GRANTED TO ENTERPRISES REGISTERED
IN THE SUBIC SPECIAL ECONOMIC AND FREEPORT ZONE.**

SECTION 1. Scope. — Pursuant to the provisions of Sections 244 and 245 of Republic Act No. 8424 or the National Internal Revenue Code of 1997, as amended, in relation to Sections 5 (m) and 13 (b) (11) of Republic Act No. 7227, these regulations are hereby promulgated to implement the tax incentives provisions under Section 12 (c) of R.A. No. 7227, particularly the definition of the term gross income earned and the creditable character of the tax paid therein against taxes paid to foreign governments.

SECTION 2. Declaration of Policy. — Within the framework and subject to the mandate of the Constitution, it is hereby declared the policy of the State to enhance the attractiveness and provide for the greater competitiveness of the Philippines, its various economic zones, including the Subic Special Economic and Freeport Zone Bay, as preferred area/s of foreign and local investments, particularly in the Asia-Pacific region.

SECTION 3. Section 3 of Revenue Regulations No. 1-95 is hereby amended by adding paragraph (4) under sub-section (o) thereof and by adding thereto a sub-section (p), to read as follows:

"o. Gross Income Earned. — x x x

1) Trading and manufacturing enterprises x x x;

2) Service enterprises x x x;

3) Financial Institutions x x x;

4) Subic Bay Regional Enterprise. — For purposes of this paragraph, the term "Gross income earned" refers to the gross sales or gross revenues derived from the business activity within the zone, net of sales discounts and sales returns and allowances and minus the costs of sales or direct costs and other costs that are material in the operations of the business and involves a significant amount in determining the profitability and viability of the business (but before any deduction for administrative expenses or incidental losses during a given taxable period). For financial

enterprises, gross income shall include interest income, gains from sales, and other income, net of allowable deductions. The following deductions shall be allowable for the calculation of gross income earned for the following specific types of enterprises:

(a) Trading and manufacturing enterprises

Direct salaries

Production supervision salaries

Raw materials used in the manufacture of products

Goods in process (Intermediate goods)

Finished goods

Supplier and fuels used in production

Toll manufacturing fees

Commission expenses

Distribution expenses

Depreciation of machineries and equipment used in production and building owned and/or constructed by SBMA-registered enterprise

Equipment lease payments

Rent and utility charges associated with. building, equipment and warehouses, or handling of goods Financing charges associated with fixed assets

Corporate management salaries

Administrative salaries

Marketing and sales salaries

Advertising

Research & Development

Royalty Fees

Travel expense

Communication Expenses

Outside Professional Services

Interest & financial charges on working capital

Loss on foreign exchange translation

Loss on disposal of merchandise inventory

(b) Service enterprises

Direct salaries

Service supervision salaries

Direct Materials, supplies used or resold to

another SBMA registered enterprise

Depreciation of machineries, equipment and buildings owned and/or constructed

Equipment lease payments

Financing Charges associated with fixed assets

Rent and utility charges for buildings and capital Equipment

Corporate management salaries

Administrative salaries

Marketing and sales salaries

Advertising

Research & Development

Royalty Fees

Travel and Entertainment expenses

Communication expenses

Outside Professional Services

Interest & financial charges on working capital

Loss on foreign exchange translation

(c) Financial Services

Depreciation

Equipment lease payments