REGULATIONS DEFINING “GROSS INCOME EARNED” TO IMPLEMENT THE TAX INCENTIVE PROVISION IN SECTION 24 OF REPUBLIC ACT NO. 7916, OTHERWISE KNOWN AS “THE SPECIAL ECONOMIC ZONE ACT OF ...

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SECTION 1. Scope - Pursuant to the provisions of Sections 244 and 245 of the National Internal Revenue Code of 1997, as amended, these regulations are hereby promulgated to define gross income earned to implement the tax incentive provision of Section 24 of Republic Act No. 7916, thus, revoking Section 7 of Revenue Regulations No. 2-2005.

SECTION 3. Gross Income Earned - For purposes of implementing the tax incentive of registered Special Economic Zone (ECOZONE) enterprises in Section 24 of Republic Act No. 7916, the term "gross income earned" shall refer to gross sales or gross revenues derived from business activity within the ECOZONE, net of sales discounts, sales returns and allowances and minus costs of sales or direct costs but before any deduction is made for administrative, marketing, selling and/or operating expenses or incidental losses during a given taxable period.

For purposes of computing the total five percent (5%) tax rate imposed, the following direct costs are included in the allowable deductions to arrive at gross income earned for specific types of enterprises:

1. ECOZONE Export Enterprises, Free Trade Enterprises and Domestic Market Enterprises:

- Direct salaries, wages or labor expenses
- Production supervision salaries
- Raw materials used in the manufacture of products
- Decrease in Goods in Process Account (Intermediate goods)
- Decrease in Finished Goods Account
- Supplies and fuels used in production
- Depreciation of machinery and equipment used in production, and of that portion of the building owned or constructed that is used exclusively in the production of goods
- Rent and utility charges associated with building, equipment and warehouses used in production
- Financing charges associated with fixed assets used in production the amount of which were not previously capitalized

2. ECOZONE Developer/Operator, Facilities, Utilities and Tourism Enterprises:

- Direct salaries, wages or labor expense
- Service supervision salaries
- Direct materials, supplies used
- Depreciation of machineries and equipment used in the rendition of registered services, and of that portion of the building owned or constructed that is used exclusively in the rendition of registered service
- Rent and utility charges for buildings and capital equipment used in the rendition of registered services

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- Financing charges associated with fixed assets used in the registered service business the amount of which were not previously capitalized."

SECTION 2. Suspension of Certain Provisions of Revenue Regulations No. 2-2005 - The effectivity of Sections 3, 4, and 6 of Revenue Regulations No. 2-2005 is hereby suspended in so far as it applies to enterprises registered under R.A. 7916, pending the issuance of a new regulations pertaining on the matter related thereto.

SECTION 3. Effectivity Clause - These Regulations shall take effect beginning March 5, 2005.

Adopted: 25 April 2005

(SGD.) CESAR V. PURISIMA
Acting Secretary of Finance

Recommending Approval:

(SGD.) GUILLERMO L. PARAYNO, JR.
Commissioner of Internal Revenue

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