Bringing In Revenues
for Nation-Building

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
**BUREAU OF INTERNAL REVENUE**

BAGONG PILIPINAS

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| Section 108, Tax Code; RA No. 9513. |
| BIR Ruling OT-320-20; BIR Ruling No. VAT-438-2022 |
| OT- 065 2024 |
| NOV 13 2024 |

**SHIZEN, INC.**
18F Philam Life Tower 8767
Paseo de Roxas, San Antonio
City of Makati

**Attention:** **REDEN G. RODRIGUEZ**
*President*

Gentlemen:

This refers to your request on behalf of Shizen, Inc. ("**Shizen**") for confirmation that:

1. Shizen, being a renewable energy ("**RE**") developer, is subject to zero percent (0%) value-added tax ("**VAT**") on its: (a) lease of certain premises used for installation and maintenance of solar power plant, generation and distribution of power from solar energy sources, and other related activities necessary and incidental thereto; and (b) purchases of local supplies, properties, and services needed for the development, construction, and installation of the Palauig Solar Power Project, pursuant to Section 15(g) par. 2 of Republic Act ("**RA**") No. 9513; and

2. To be entitled to the zero percent (0%) VAT, Shizen is only required to submit to the lessor and its other suppliers a copy of its Department of Energy ("**DOE**") and Board of Investments ("**BOI**") registrations pursuant to Revenue Regulations ("**RR**") No. 7-2022.

*Background*

1. Shizen (Taxpayer Identification Number: )[1] is a domestic corporation duly registered with the Securities and Exchange Commission ("**SEC**") under SEC Registration No. n August 15, 2018, with primary purpose of engaging in the exploration, development, construction and any other allied activities to engage in any work upon manufacturing plants, solar energy generating plants.

[1] Registered line of business is electric power generation, transmission and distribution.

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2. Shizen is registered with the DOE under Registration No. / (formerly ) dated March 2, 2022 as an RE developer of Solar Power Project (the "**Project**") located in Palauig, Zambales.

3. Shizen was registered with the BOI under BOI Certificate of Registration No. dated September 9, 2020.

4. Under Shizen's DOE and BOI registrations, it enjoys the privilege of zero percent VAT rate on its purchases of local supply of goods, properties, and services needed for the development, construction, and installation of its plant facilities and the whole process of exploration and development of RE sources up to conversion into power.

5. On January 30, 2020, Shizen and Philippine Radio Educational and Information Center, Inc. ("**PREIC**") entered into a Land Lease Agreement ("**Lease Agreement**") for the lease of various premises located in Barangay Lipay, Municipality of Palauig, Province of Zambales, consisting of approximately ( hectares (the "**Leased Premises**").

6. Pursuant to the Lease Agreement, Shizen shall solely use the Leased Premises for the installation and maintenance of a solar power plant, the generation and distribution of power from solar energy sources, and other related activities necessary and incidental thereto. The annual rent shall be PhP per hectare, a fraction of a hectare to be paid proportionately, subject to two percent (2%) annual increase every anniversary date. Any VAT due shall be shouldered by Shizen and shall be added to the amount payable.

In reply, please be informed that Section 15 (g) of RA No. 9513 reads:

*"SEC. 15. Incentives for Renewable Energy Projects and Activities. — RE Developers of renewable energy facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the DOE, in consultation with the BOI, shall be entitled to the following incentives:*

*xxx xxx xxx*

*(g) Zero Percent Value-Added Tax Rate. —*

*xxx xxx xxx*

*All RE Developers shall be entitled to zero-rated value-added tax on its purchases of local supply of goods, properties and services needed for the development, construction and installation of its plant facilities.*

*This provision shall also apply to the whole process of exploring and developing renewable energy sources up to its conversion into power, including but not limited to the services performed by subcontractors and/or contractors."* (Underscoring supplied)

In relation thereto, Section 108 (B) (3) of the National Internal Revenue Code of 1997, as amended, provides that:

> *"Sec. 108. Value-Added Tax on Sale of Services and Use or Lease of Properties. —*
> XXX XXX XXX
>
> *(B) Transactions Subject to Zero Percent (0%) Rate. — The following services performed in the Philippines by VAT registered persons shall be subject to zero percent (0%) rate:*
>
> XXX XXX XXX
>
> *(3) Services rendered to persons or entities whose exemption under special laws or international agreements to which the Philippines is a signatory effectively subjects the supply of such services to zero percent (0%) rate;*
>
> XXX XXX XXX"

Based on the foregoing provisions, it is evident that the intention of the legislators is to exclude RE developers from the coverage of the 12% VAT on their local purchases of goods, properties, and services needed for the development, construction and installation of their power plant facilities, including the whole process of exploring and developing renewable energy sources up to its conversion into power. Please note that the covered transactions also include lease of goods, properties, and services, provided that they are related to the development, construction and installation of power plant facilities.

Accordingly, the suppliers/sellers/lessors of goods, properties, and services of Shizen, it being a DOE-certified RE Developer, should not pass on 12% VAT to the latter's purchases/lease of goods, properties, and services relating to the Project. It must be emphasized, however, that the zero-percent (0%) VAT shall be limited only to Shizen's local purchases/lease of goods, properties, and services that will be used in its development, construction and installation of the Project.[2]

Likewise, the grant of VAT zero-rating shall be subject to post audit verification by the Bureau of Internal Revenue ("**BIR**") whether the leased/purchased goods/properties/services were indeed utilized in the development, construction and installation of Project.

This ruling is issued on the basis of the foregoing facts as represented. However, if upon investigation it shall be disclosed that the facts are different, then this ruling shall be considered null and void.

**LARRY M. BARCELO**[3]
*Assistant Commissioner*
*Legal Service*
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[2] BIR Ruling No. VAT-438-2022, December 1, 2022; BIR Ruling No. 078-2010 dated September 23, 2010; BIR Ruling No. 805-2019 dated December 20, 2019.
[3] Revenue Delegation Authority Order No. 2-2020, Delegation of Authority to Sign Certificate of Tax Exemption and Rulings for Energy Related Projects, May 18, 2020.