February 28, 2019

CERTIFICATE OF TAX EXEMPTION NO. 198-19

CERTIFICATE OF TAX EXEMPTION

TO ALL WHOM IT MAY CONCERN :

This certifies that **SM DEVELOPMENT CORPORATION**, with Tax Identification Number (TIN) 000-000-000-000, is exempt from income tax and creditable withholding tax (CWT) on its income received directly in connection with the following low-cost mass housing projects [1] (vertical), pursuant to Executive Order No. 226, otherwise known as the "Omnibus Investments Code of 1987" and Section 2.57.5 (B) (2) of Revenue Regulations (RR) No. 2-98, as amended:

1. **Grace Residences Tower 2**, consisting of **1,168** [2] housing units located at Cayetano Boulevard, Brgy. Ususan, Taguig City, a project duly registered with the Board of Investments (BOI) under Registration No. 2013-118 dated June 04, 2013, for a period of **3** years beginning **January 02, 2014 to January 01, 2017**; [3]

2. **Grace Residences Tower 3-Cayetano Boulevard, Barangay Ususan, Taguig City**, consisting of **1,077** housing units located at Cayetano Boulevard, Barangay Ususan, Taguig City, a project duly registered with the Board of Investments (BOI) under Registration No. 2014-021 dated February 05, 2014, for a period of **3** years beginning **December 08, 2014 to December 07, 2017**. [4]

3. **Grace Residences Tower 4-Cayetano Boulevard, Barangay Ususan, Taguig City**, consisting of **1,128** [5] housing units located at Cayetano Boulevard, Barangay Ususan, Taguig City, a project duly registered with the Board of Investments (BOI) under Registration No. 2015-018 dated January 23, 2015, for a period of **3** years beginning **October 30, 2015 to October 29, 2018**. [6]

provided that said housing units shall be used solely for family home or dwelling purposes and not for commercial purposes such as leasing, retail stores, offices, etc.

Moreover, the sale by the Company of residential lot valued at P1,919,500.00 and below, or house and lot and other residential dwellings valued at P3,199,200.00 and below, is exempt from value-added tax (VAT) pursuant to Section 109 (1) (P) of the National

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Internal Revenue Code of 1997, as amended. Provided, however, that beginning January 01, 2021, the exemption from VAT shall only apply to sale of house and lot and other residential dwellings [7] with selling price of not more than P2,000,000.00.

However, the sale of housing units in excess of the housing units registered with the BOI, if any, as well as parking slots, shall be subject to the payment of appropriate taxes under the National Internal Revenue Code of 1997, as amended.

The grant of tax exemption herein is subject to strict compliance with the provisions of applicable BIR rules and regulations and the following Terms and Conditions, to *wit*:

TERMS AND CONDITIONS
OF THE CERTIFICATE OF TAX EXEMPTION

a) The exemption from income and CWT covers only income directly attributable to the revenues generated from the projects, **Grace Residences Tower 2**, consisting of **1,168** units, **Grace Residences Tower 3-Cayetano Boulevard, Barangay Ususan, Taguig City**, consisting of **1,077** units, and **Grace Residences Tower 4-Cayetano Boulevard, Barangay Ususan, Taguig City**, consisting of **1,128** units, all located at Cayetano Boulevard, Barangay Ususan, Taguig City. Such exemption shall not cover revenues from units with selling price exceeding P3,000,000.00. For this purpose, the Company shall submit audited segregated income statements for these registered projects. Net income from operations of the registered activities shall be certified under oath by the Chief Executive Officer (CEO) or Chief Financial Officer (CFO).

b) The Company is obligated to comply with the following sales revenues:

Grace Residences Tower 2

Year	Volume (No. of Units)	Value (PhP)
1	1,174	_____
2	-	-
3	-	-
Total	**1,174** [8]	_____

Grace Residences Tower 3 -
Cayetano Boulevard, Barangay Ususan, Taguig City

Year	Volume (No. of Units)	Value (PhP)
1	671	_____

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2	406	_____
3	-	-
Total	**1,077**	_____

Grace Residences Tower 4 -
Cayetano Boulevard, Barangay Ususan, Taguig City

Year	Volume (No. of Units)	Value (PhP'000)
1	694	_____
2	440	_____
3	-	-
Total	**1,134** [9]	_____

c) The enterprise shall submit the list of cost items common to all its projects/activities (whether BOI or non BOI-registered) and the methodology adopted in allocating the common costs between the registered and non-registered activity/ies.

d) Interest expense on the enterprise's liabilities shall be appropriately allocated between the registered and non-registered activity/ies.

e) In the computation of ITH, interest income from in-house financing shall not be considered as revenues generated from the registered activity.

f) In the availment of ITH, the enterprise shall secure from the HLURB an endorsement that it has faithfully complied with the approved development plan and a "*Certificate of Good Housekeeping*."

g) The Company's entitlement to ITH for its BOI-registered housing projects is subject to the compliance with the provisions of the Specific Terms and Conditions of its BOI Registrations.

h) Pursuant to Section 4 of Republic Act (RA) No. 10708, [10] the Company is required to file its tax returns and pay its tax liabilities, on or before the deadline as provided under the National Internal Revenue Code of 1997, as amended, using the electronic system for filing and payment of taxes of the BIR. It shall file with BOI a complete annual tax incentives report of its income-based tax incentives, VAT and duty exemptions, deductions, credits or exclusions from the tax base, as may be provided under E.O. 226, within the periods prescribed under RA No. 10708's Implementing Rules and Regulations and Joint Memorandum Circular No. 1-2016 dated September 1, 2016.

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i) The Company shall be constituted as a withholding agent for the government if it acts as employer and any of its employees received compensation income subject to compensation withholding tax, or if it makes payments to individuals or corporations subject to the withholding taxes as source as required under Chapter XIII and Section 57 of the National Internal Revenue Code of 1997, as amended, and implemented by Revenue Regulations (RR) No. 2-98, as amended.

j) The Company is required to file on or before the 15th day of the fourth month following the close of its accounting period of a Profit and Loss Statement and Balance Sheet with the Annual Information Return under oath, stating its gross income and expenses incurred during the taxable year.

k) Finally, the Company's books of accounts and other pertinent records shall be subject to periodic examination by revenue enforcement officers of this Bureau for the purpose of ascertaining whether it is complying with the conditions under which it has been granted tax exemption or tax incentives and its tax liability, if any, pursuant to Section 235 of the National Internal Revenue Code of 1997, as amended.

The Company is liable, however, for all other applicable taxes not discussed above.

This Certificate of Tax Exemption is being issued on the basis of the facts and documents as represented and submitted. However, if upon investigation, the BIR ascertains that the facts are different, then this Certificate shall be considered null and void.

Issued this 28th day of February, 2019.

(SGD.) CAESAR R. DULAY
Commissioner of Internal Revenue

Footnotes

1. Covered by Certificate of Registration No. 24746 dated October 07, 2013 and License to Sell No. 029326 dated January 26, 2015, both issued by the Housing and Land Use Regulatory Board (HLURB).
2. Per License to Sell No. 029326 dated January 26, 2015, issued by the HLURB.
3. Per Certificate of ITH Entitlement Nos. 2015-000548 dated April 8, 2015 and 2016-000293 dated March 10, 2016, both issued by the BOI.
4. Per Certificate of ITH Entitlement Nos. 2015-000546 dated April 8, 2015 and 2016-000295 dated March 10, 2016, both issued by the BOI.
5. Per License to Sell No. 029326 dated January 26, 2015, issued by the HLURB.
6. Per Certificate of ITH Entitlement No. 2016-0003000 dated March 14, 2016, issued by the

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BOI.

7. Sale of lot only, regardless of the price, shall be subject to VAT starting January 01, 2021 pursuant to RA No. 10963.
8. While the company is obligated to construct 1,174 units for Grace Residences Tower 2, the exemption from income and CWT covers only revenues generated from the 1,168 units allowed per HLURB License to Sell No. 029326 dated January 26, 2015.
9. While the company is obligated to construct 1,134 units for Grace Residences Tower 4, the exemption from income and CWT covers only revenues generated from the 1,128 units allowed per HLURB License to Sell No. 029326 dated January 26, 2015.
10. An Act Enhancing Transparency in the Management and Accounting of Tax Incentives Administered by Investment Promotion Agencies.

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