REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

Quezon City

R.A. No. 7916; E.O. No. 226; RR No. 2-98; RR No. 16-2005; RR No. 07-2007
BIR Ruling No. 372-2011; BIR Ruling No. 371-2011; BIR Ruling No. 142-2010
#228-2017 5-15-2017

MEP SOLUTIONS CORPORATION
Unit 10-1, 10th Floor of Net One Center,
3rd Avenue Cor., 26th St., Bonifacio Global City,
Taguig, Metro Manila

Attention: GLADEYS JILL A. SANTOS-CUA, CPA, MBA, REA, REB, IRCA, CrFA, CICA, LLB
Authorized Representative

Gentlemen:

This refers to your letter dated September 18, 2015 requesting for a BIR Ruling in behalf of your client, **MEP SOLUTIONS CORPORATION**, pursuant to the provisions of Republic Act (RA) No. 7916, as amended, otherwise known as "The Special Economic Zone Act of 1995".

It is represented that **MEP SOLUTIONS CORPORATION** with Tax Identification Number [redacted] and Certificate of Registration No. OCN [redacted] dated September 17, 2015, is a stock corporation duly organized under the laws of the Republic of the Philippines; that it is registered with the Securities and Exchange Commission (SEC) under Registration No. [redacted] dated July 13, 2015; and that it is also registered with the Philippine Economic Zone Authority (PEZA) under Certificate of Registration Number 15-165 dated September 08, 2015.

In reply, please be informed as follows:

I. Income Tax Holiday and Expanded Withholding Tax

13.4 of Article XIII of the Registration Agreement entered into between **PEZA** and **MEP SOLUTIONS CORPORATION** provides that:

> *"13.4 The REGISTRANT's project subject of this approval shall be entitled to four (4) years Income Tax Holiday (ITH) incentive, among other incentives under RA 7916, as amended, in accordance with the 2014 Investment Priorities Plan (IPP).*
>
> *The ITH incentive granted to this project is premised on the REGISTRANT's use of an entirely new set of equipment / software amounting to PhP 8,574,400.00 that will be used for the first time in the Philippines, i.e., the said equipment have not been used by any IT enterprise in the Philippines....."*

Accordingly, **MEP SOLUTIONS CORPORATION** is entitled to an Income Tax Holiday (ITH) incentive for a period of four (4) years from the start of its commercial operations which shall not be later than one (1) year from October 2015.

Moreover, Section 2.57.5 (B) (2) of Revenue Regulations No. 2-98, as amended, is explicit in its provisions that the expanded withholding tax does not apply to income payments to persons enjoying exemption from payment of income taxes pursuant to the provisions of any law, general or special. PEZA-registered enterprises are granted certain preferential tax treatment under Section 24 of Republic Act (RA) No. 7916 which provides that "any provision of existing laws, rules and regulations to the contrary notwithstanding, no taxes, local and national shall be imposed on business establishments operating within the ECOZONE. In lieu of paying taxes, five percent (5%) of the gross income earned by all businesses and enterprises within the ECOZONE shall be remitted to the national government. *(BIR Ruling No. 142-2010 dated December 09, 2010)*

Thus, since **MEP SOLUTIONS CORPORATION** is a PEZA-registered enterprise enjoying a 4-year-ITH, income payments made to it, with respect to its registered activity of business process outsourcing (BPO) services such as, but not limited to, the preparation of detailed drawings using computer-aided design (CAD) and new technologies, and the importation of machinery equipment, tools, goods, wares, articles, or merchandise directly used in its registered operations, shall not be subject to 2% expanded creditable withholding tax prescribed in Revenue Regulations No. 2-98, as amended, for a period of four (4) years from the start of commercial operations which shall not be later than one (1) year from October 2015. However, it must be emphasized, that **MEP SOLUTIONS CORPORATION** is constituted as withholding agent for the government. As such, it is required to withhold the tax on compensation income of its employees or the withholding tax on income payments to persons subject to tax pursuant to Section 57 of the National Internal Revenue Code of 1997, as amended.

In addition, under Section 235 of the National Internal Revenue Code of 1997, as amended, any provision of existing general and special law to the contrary notwithstanding, the books of accounts and other pertinent records of tax-exempt organization or grantees of tax incentives shall be subject to examination by the BIR for purposes of ascertaining compliance with the conditions under which it has been granted tax exemptions or tax incentives, and its tax liabilities, if any. *(BIR Ruling No. 371-2011 dated October 07, 2011)* Therefore, a copy of this letter of exemption shall be attached to the Income Tax Return (ITR) which **MEP SOLUTIONS CORPORATION** will file on or before the 15th day of the fourth month of each year.

II. VAT Zero-Rating on Purchase of Good, Properties, and Services

Sec. 4.106-5 of Revenue Regulations (RR) No. 16-2005 as amended by Section 5 of RR No. 04-2007 provides, viz.:

> *"Section 5. Zero Rated Sales. - Sec. 4.106-5 of RR No. 16-2005 is hereby amended to read as follows:*
>
> > *"SEC. 4.106-5. Zero-Rated Sales of Goods or Properties. - The following sales by VAT-registered persons shall be subject to zero percent (0%) rate:*
> >
> > *(a) Export Sales. — . . .*
> >
> > *(5) Transactions considered export sales under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987, and other special laws.*
> >
> > *'Considered export sales under Executive Order No. 226' shall mean the Philippine port F.O.B.*