REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
BIR National Office Building
Diliman, Quezon City

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07 February 2023

REVENUE MEMORANDUM CIRCULAR NO. 24 - 2023

SUBJECT: Provides Further Clarifications on the Qualifications of Ecozone Logistics Service Enterprise (ELSE) to the Incentives of VAT-Zero Rate on Local Purchases of Goods and Services Exclusively and Directly Used in the Registered Project or Activity

TO: All Internal Revenue Officers and Others Concerned

Revenue Memorandum Circular (RMC) No. 15-2023 was issued to publish Memorandum Circular (MC) No. 2023-01 that was issued by the Board of Investment (BOI) to provide clarification on the coverage of logistic services as "activities in support to exporters" under the 2022 Strategic Investment Priority Plan (SIPP). Despite its issuance, there are still some questions that need to be addressed, as follows:

Q1: What are Ecozone Logistics Service Enterprise (ELSE)?

A1: Formerly named as "Ecozone Facilities Enterprise Engaging in Warehouse Operations" under Philippine Economic Zone Authority (PEZA) Board Resolution (BR) No. 97-366, as amended by PEZA BR No. 10-506, and is now referred to as Ecozone Logistics Service Enterprises (ELSE). ELSE is a registered business enterprise (RBE) supplying production-related raw materials and equipment that caters exclusively to the requirements of export manufacturing enterprises which are registered with the Philippine Economic Zone Authority (PEZA), Clark Development Corporation (CDC), Subic Bay Metropolitan Authority (SBMA), Authority of the Freeport Area of Bataan (AFAB) or other special economic zones/freeports outside the administration of PEZA. It provides critical support, particularly to export manufacturing companies with their requirements for logistics support to facilitate their import and export shipments, sourcing of raw materials, inventory management, just-in-time deliveries, localization, and process customization.

Q2: Can ELSE be considered an "export enterprise" as defined under the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act?

A2: Yes, ELSEs that render at least 70% of their output/services to another registered export enterprise are covered by the definition of "export enterprise" under section 293(E) of the National Internal Revenue Code (NIRC) of 1997, as amended by the CREATE Act and as clarified in BOI MC No. 2023-001.

Q3: If the enterprise only engages in trucking and delivery services, will it qualify to be registered as ELSE?

A3: No, the definition of an RBE under Section 293(M) of the NIRC of 1997, as amended, excludes certain service enterprises, such as those engaged in trucking or forwarding services. Moreover, BOI MC No. 2023-001 provided the only type of logistic service that will qualify to be registered as ELSE are those undertaking **BOTH** of the following:

1. Establishment of a warehouse storage facility; **and**

2. Importation or procurement from local sources and/or from other registered enterprises of goods for resale, or for packing/covering (including marking, labeling), cutting or altering to customers' specification, mounting and/or packaging into kits or marketable lots thereof for subsequent sale, transfer or disposition for export.

Q4: Inasmuch as ELSEs are considered export enterprises under Section 293(M) of the NIRC of 1997, as amended, and as clarified by BOI MC No. 2023-01, will their purchases from the customs territory be considered VAT zero-rated?

A4: Yes. Purchases of registered ELSEs from VAT-registered suppliers are subject to VAT at zero-rate but shall only apply to goods and/or services directly and exclusively used in the registered project or activity of the ELSE. Details on the availment of VAT zero-rate incentives on local purchases under the CREATE Act are provided in RMC No. 24-2022 and its subsequent amendments.

Q5: In order for ELSEs to avail of VAT zero-rating on their local purchases that are directly and exclusively used in the registered project or activities, will there be procedures and requirements to be followed before availing such?

A5: Yes. Q and A numbers 32 to 37 under Section V of RMC No. 24-2022 provided the guidelines and documentary requirements for the availment of VAT zero-rating on their local purchases that are directly and exclusively used in the registered projects or activities.

To reiterate, the processing of applications for VAT zero-rating shall be governed by Revenue Memorandum Order (RMO) No. 7-2006 and its subsequent amendments, if any. However, provisions of Sections 294(E) and 295(D), Title XIII of the NIRC of 1997, as amended by the CREATE Act, and Rule 2, Section 5 and Rule 18, Section 5 of the CREATE Act IRR, as amended, shall be strictly complied with. Relative hereto, the following must be included in the attachments to the application for VAT zero-rating:

1. Certificate of Registration and VAT Certification issued by the concerned IPA as submitted to it by its registered export enterprise buyers;

2. A sworn affidavit executed by the registered export enterprise-buyer stating that the goods and/or services bought are directly and exclusively used for the production of goods and/or completion of services to be exported or for utilities and other similar costs, the percentage of allocation to directly and exclusively used for the production of goods and/or completion of services to be exported; and

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3. Other documents to corroborate entitlement to VAT zero-rating, such as but not limited to duly certified copies of the valid purchase order, job order or service agreement, sales invoices and/or official receipts, delivery receipts, or similar documents to prove the existence and legitimacy of the transaction.

All revenue issuances and BIR Rulings inconsistent herewith are hereby considered amended, modified, or revoked accordingly.

All revenue officials concerned are enjoined to give this Circular as wide a publicity as possible.

This Circular takes effect immediately.

ROMEO D. LUMAGUI, JR.
Commissioner of Internal Revenue
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