REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

Quezon City

Sec. 24, RA 7916
BIR Ruling No. 750-18
ICT - 356 -
OCT 04 2021

MR. AKINORI AIKI
Deputy General Manager
Marubun/Arrow (Phils.), Inc.
2/F MDD Bldg., 121 East Science Avenue Laguna Technopark
Special Economic Zone, Biñan, Laguna 4024

Dear Mr. Aiki:

This refers to your letter dated June 18, 2015 requesting for exemption from withholding tax on account of your registration with the Philippine Economic Zone Authority (PEZA).

Documents show that **Marubun/Arrow (Phils.), Inc.** ("the Company") is a corporation duly organized and existing under the laws of the Philippines with office address at 2/F MDD Bldg., 121 East Science Avenue Laguna Technopark, Special Economic Zone, Biñan, Laguna 4024. It is registered with the Securities and Exchange Commission under Company Registration No. A200115192 on October 9, 2001 and the Bureau of Internal Revenue under Certificate of Registration No.) dated November 15, 2001. Likewise, the Company is registered with the PEZA under Certificate of Registration No. on November 6, 2001 as an Ecozone Facilities Enterprise to engage in warehousing operations at Laguna Technopark-Special Economic Zone (LT-SEZ), particularly, in the importation, storage, safekeeping, just-in-time delivery of electronic and semiconductor goods, for sale, transfer or disposition to its export enterprise-clients.

In reply, please be informed that in BIR Ruling No. 750-18 dated April 30, 2018, this Office ruled as follows:

> "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 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. (BIR Ruling No. 422-14 dated October 23, 2014)
>
> SCPA Properties, Inc., however, is liable to the payment of five percent (5%) of the gross income earned, in lieu of all taxes, national or local.

Further, Section 2 (nn), Rule I of the implementing Rules of RA No. 7916 defines the term 'gross income' as follows:

> '(nn) "Gross Income" for purposes of computing the special tax due under Section 24 of the Act refers to gross sales and 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 expenses or incidental losses during a given taxable period. The allowable deductions from "gross income" are specifically enumerated under Section 2, Rule XX of these Rules.'

The definition of 'gross income' limits the application of the preferential tax rate of 5% to income derived from the registered activity by an ECOZONE enterprise. Thus, any income derived by a registered enterprise that is not related to its registered activity is not entitled to the preferential tax rate of 5%. Instead, such income derived from an unregistered activity shall be subject to regular internal revenue tax as provided under Section 1 (1st par.) of Revenue Regulations No. 20-02.

Accordingly, since SCPA PROPERTIES, INC. is a PEZA-registered enterprise enjoying the 5% preferential tax incentive, all payments received by it from its lessees, which are PEZA-registered export enterprises, derived from its registered activities are exempt from the withholding tax."

IN VIEW OF THE FOREGOING, since Marubun/Arrow (Phils.), Inc. is a PEZA-registered enterprise enjoying incentive under a special law and the 5% preferential tax incentive from the PEZA, all payments received by it from its customers whether ECOZONE registered or customs territory enterprises in connection with its PEZA registered activities as provided under Section 11.1, Article XI of its Registration Agreement:

> "11.1 The REGISTRANT's warehousing operations shall be limited to <u>importation, storage, safekeeping, just-in-time delivery of electronic and semiconductor goods for sale, transfer, or disposition</u> to its export enterprise-clients."

are exempt from the withholding tax. However, Marubun/Arrow (Phils.), Inc. 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 Tax Code of 1997, as amended.

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

Very truly yours,

CAESAR R. DULAY
Commissioner of Internal Revenue