

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

SIXTEENTH (16TH) CONGRESS
First Regular Session

House Bill No. 15



Introduced by: Honorable Ronald V. Singson

EXPLANATORY NOTE

This bill seeks to establish the Special Economic Zone and Freeport in the Municipalities of San Juan and Cabugao, all in the province of Ilocos Sur.

If there is anything clear in the world market of investments and to the community of investors, it is this; a country must look beyond the traditional way of doing things. It must innovate to create opportunities where and by which it can give investors the maximum value of their investments.

This bill seeks to achieve this by establishing the Salomague Freeport-which shall cover the entire Salomague Cove and area embraced by the barangays of Dardarat, Solotsolot, Surgit and Refaro in the municipality of San Juan as well as Dardarat, Pila, Sagadayen, Salomague, Sabang, Namruangan, Salapasap, Daclapan, Pug-os, Turod and Baclig in the Municipality of Cabugao, all in the province of Ilocos Sur. The concept and objective is to develop the Freeport area into a self-sustaining industrial, commercial and investment center that will; put in place a wide reaching employment and investment generation mechanism, all to strengthen the trading and foreign exchange position of the country. On the whole, it is looking at effectively complementing an announced aggressive export-oriented thrust of the country, thus, enhancing the country's global competitiveness.

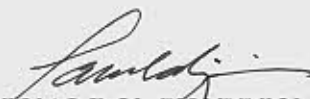
As envisioned, the Salomague Freeport shall be operated as a separate customs territory that will basically provide incentives to ensure the free flow and movement of goods and commodities within the Freeport area and their exportation therefrom. Likewise it shall provide tax based incentives for business activities and concerns locating and operating within the Freeport premises, not to mention other non-tax benefits like liberal exchange policies and the grant of permanent resident status to investors.

This bill does away with an authority-type of office to run the Freeport but directly tasks a governing body composed of the elected chief executives of the localities involved and the private sector to do the job. It is felt that with the flexibility already defined in the bill, creating the Freeport already as a body corporate, to institutionalize another office or authority for purpose of running the Freeport would be necessary.

The competitive markets around are now moving fast already leaving the country behind. The performance of South Korea, Hongkong, Taiwan and Singapore had always been a source of envy despite limited resources they have compared to the abundance of our country enjoys. And now Thailand, Malaysia and Indonesia are surging ahead, outpacing even other western countries. Particularly because the proposed Freeport offers an environment that can match the capabilities and resources of a comparable area anywhere in the country, this Bill may help the country, at least, to keep pace with, not necessarily, to get ahead of the pack.

There are physical geographic and natural attributes of the Salomague Area that can make the creation of Freeport ideal therein. Salomague cove is a natural harbor and haven for international ships during inclement weather. There is a channel that hugs the semicircular shorelines that is appropriate for marine vessel traffic. Not to be forgotten is that, it is probably the only port closest to Hongkong, Japan and Taiwan. It is large that it can sit dozens of vessels at any one time. It can close to an international airport in Laoag City, Ilocos Norte and a local airport in Vigan Ilocos Sur.

In light of the foregoing, approval of the Bill is earnestly sought.


RONALD V. SINGSON

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AN ACT ESTABLISHING THE SPECIAL ECONOMIC ZONE AND
FREEPORT IN THE PROVINCE OF ILOCOS SUR, CREATING FOR THIS
PURPOSE THE ILOCOS SUR SPECIAL ECONOMIC ZONE AND FREEPORT
AUTHORITY, APPROPRIATING FUNDS THEREFOR AND FOR OTHER
PURPOSE

*Be it enacted by the Senate and House of Representatives of the Philippines in Congress
assembled:*

1 **CHAPTER I**

2 **GENERAL PROVISIONS**

3 **SECTION 1. *Short Title.*** – This Act shall be known as the “Ilocos Sur Special
4 Economic Zone and Freeport Act of 2013”.

5 **SEC. 2. *Declaration of Policy.*** – It is hereby declared the policy of the State to
6 actively encourage, promote, induce and accelerate the sound and balanced industrial,
7 economic and social development of the country in order to provide jobs to the people
8 especially those in the rural areas, increase productivity and individual and family
9 income, and thereby improve the level and quality of living conditions through the
10 establishment, among others, of special economic zones and freeports in suitable and
11 strategic locations in the country and through measures that will attract legitimate and
12 productive foreign investments.

CHAPTER II

CREATION OF THE ECOZONE

SEC. 3. *Creation of the Ilocos Sur Special Economic Zone and Freeport.* – In pursuit of the foregoing declared policy and subject to the concurrence of the concerned local government units (LGUs) of Ilocos Sur affected by the zone, there is hereby established a special economic zone and freeport in the Province of Ilocos Sur to be known as the Ilocos Sur Special Economic Zone and Freeport, hereinafter referred to as the Ilocos Sur Ecozone. The Ilocos Sur Ecozone shall cover the entire Salomague Cove and the area embraced by the barangays of Dardarat, Solotsolot, Surngit and Refaro in the Municipality of San Juan as well as Dardarat, Pila, Sagayaden, Salomague, Sabang, Namruangan, Salapasap, Daclapan, Pug-os, Turod and Baclig in the Municipality of Cabugao. The specific metes and bounds of the Ilocos Sur Ecozone shall be more particularly defined in a presidential proclamation that shall be issued for this purpose.

SEC. 4. *Governing Principles.* – The Ilocos Sur Ecozone shall be managed and operated by the Ilocos Sur Special Economic Zone and Freeport Authority, hereinafter referred to as the ISSEZFA, created under Section 5 of this Act, under the following principles:

(a) Within the framework and limitations of the Constitution and applicable provisions of the Local Government Code, the Ilocos Sur Ecozone shall be developed into and operated as a decentralized, self-reliant and self-sustaining industrial, commercial/trading, agro-industrial, tourist, banking, financial and investment center with suitable residential areas;

(b) The Ilocos Sur Ecozone shall be provided with transportation, telecommunications and other facilities needed to attract legitimate and productive investments, generate linkage industries and employment opportunities for the people of the Province of Ilocos Sur and its neighboring towns and cities;

(c) The Ilocos Sur Ecozone may establish mutually beneficial economic relations with other entities or enterprises within the country or, subject to the administrative guidance of the Department of Foreign Affairs (DFA), the Philippine

1 Economic Zone Authority (PEZA) and/or the Department of Trade and Industry (DTI),
2 with foreign entities or enterprises;

3 (d) Foreign citizens and companies owned by non-Filipinos in whatever
4 proportion may set up enterprises in the Ilocos Sur Ecozone, either by themselves or in
5 joint venture with Filipinos in any sector of industry, international trade and commerce
6 within the Ilocos Sur Ecozone;

7 (e) The Ilocos Sur Ecozone shall be managed and operated as a separate
8 customs territory, thereby ensuring the free flow or movement of goods and capital
9 within, into and out of the Ilocos Sur Ecozone, and shall likewise provide incentives
10 such as tax- and duty-free importations of raw materials and capital equipment to
11 registered enterprises located therein. However, exportation or removal of goods from
12 the territory of the Ilocos Sur Ecozone to the other parts of the Philippine territory shall
13 be subject to customs duties and taxes under the Tariff and Customs Code of the
14 Philippines, as amended, and the National Internal Revenue Code (NIRC) of 1997, as
15 amended;

16 (f) The areas comprising the Ilocos Sur Ecozone may be expanded or reduced
17 when necessary. For this purpose, the ISSEZFA, in consultation with the LGUs, shall
18 have the power to acquire either by purchase, negotiation or condemnation
19 proceedings, any private land within or adjacent to the Ilocos Sur Ecozone for the
20 following purposes: (1) consolidation of lands for Ilocos Sur Ecozone development; (2)
21 acquisition of right-of-way to the Ilocos Sur Ecozone; and (3) the protection of
22 watershed areas and natural assets valuable to the prosperity of the Ilocos Sur Ecozone;

23 (g) Goods manufactured by an Ilocos Sur Ecozone enterprise shall be made
24 available for immediate retail sale in the domestic market, subject to the payment of
25 corresponding taxes on raw materials and other regulations that may be formulated by
26 the ISSEZFA, together with the PEZA, the Bureau of Customs (BoC) and the DTI in
27 accordance with the NIRC of 1997, as amended, and the Tariff and Customs Code of
28 the Philippines, as amended. However, in order to protect domestic industries, a
29 Negative List of industries shall be drawn up and regularly updated by the PEZA.
30 Enterprises engaged in industries included in such Negative List shall not be allowed to
31 sell their products locally; and

(h) The defense of the Ilocos Sur Ecozone and the security of its perimeter fence shall be the responsibility of the national government in coordination with the Ilocos Sur Ecozone and the LGUs. For this purpose, a special defense team shall be organized to define its power, duties and responsibilities.

CHAPTER III

GOVERNING STRUCTURES

SEC. 5. *Creation of the Ilocos Sur Special Economic Zone and Freeport*

Authority. – There is hereby created a body corporate to be known as the Ilocos Sur Special Economic Zone and Freeport Authority, hereinafter referred to as the ISSEZFA, which shall manage and operate the Ilocos Sur Ecozone in accordance with the provisions of this Act. This corporate franchise shall expire in fifty (50) years counted from the first year after the effectivity of this Act, unless otherwise extended by Congress. It shall be organized within one hundred eighty (180) days after the effectivity of this Act.

SEC. 6. *Capitalization.* – The ISSEZFA shall have an authorized capital stock of two billion (2,000,000,000) no-par shares with a minimum issue of Ten pesos (P10.00) each, the majority shares of which shall be subscribed and paid for by the national government and the LGUs embracing the Ilocos Sur Ecozone. The Board of Directors of the ISSEZFA may, with the written concurrence of the Secretary of Finance, sell shares, representing not more than forty per centum (40%) of the capital stock of the ISSEZFA to the general public under such policy as the Board and the Secretary of Finance may determine. The national government and the LGUs shall, in no case, own less than sixty per centum (60%) of the total issued and outstanding capital of the ISSEZFA.

The amount necessary to subscribe and pay for the shares of the national government to the capital stock of the ISSEZFA shall be included in the annual General Appropriations Act. For LGUs, the funds shall be taken from their internal revenue allotment and other local funds.

SEC. 7. *Principal Office of the ISSEZFA.* – The ISSEZFA shall maintain its

1 principal office in the Municipality of Cabugao, Province of Ilocos Sur, but it may
2 establish branches within the Philippines as may be necessary for the proper conduct of
3 its business.

4 **SEC. 8. Powers and Functions of the ISSEZFA.** – The ISSEZFA shall have
5 the following functions:

6 (a) Operate, administer, manage and develop the Ilocos Sur Ecozone according
7 to the principles and provisions set forth in this Act;

8 (b) Recommend to the President of the Philippines the issuance of a
9 proclamation to fix and delimit the site of the Ilocos Sur Ecozone;

10 (c) Register, regulate and supervise the enterprises in the Ilocos Sur Ecozone in
11 an efficient and decentralized manner, subject to existing laws;

12 (d) Coordinate with LGUs and exercise general supervision over the
13 development plans, activities and operations of the Ilocos Sur Ecozone;

14 (e) Authorize or undertake, on its own or through others, and regulate the
15 establishment, operation and maintenance of public utilities, services and infrastructure
16 in the Ilocos Sur Ecozone such as shipping, barging, stevedoring, cargo handling,
17 hauling, warehousing, storage of cargo, port services or concessions, piers, wharves,
18 bulkheads, bulk terminals, mooring areas, storage areas, roads, bridges, terminals,
19 conveyors, water supply and storage, sewerage, drainage, airport operations in
20 coordination with the Civil Aeronautics Board, and such other services or concessions
21 or infrastructure necessary or incidental to the accomplishment of the objectives of this
22 Act: *Provided, however,* That the private investors in the Ilocos Sur Ecozone shall be
23 given priority in the awarding of contracts, franchises, licenses, permits for the
24 establishment, operation and maintenance of utilities, services and infrastructure in the
25 Ilocos Sur Ecozone;

26 (f) Regulate and undertake the establishment, operation and maintenance of
27 utilities, other services and infrastructure in the Ilocos Sur Ecozone such as, but not
28 limited to, heat, light and power, water supply, telecommunications, transport, toll
29 roads and bridges, port services, etc. and to fix just, reasonable and competitive rates,

1 fares, charges and prices thereof;

2 (g) Construct, acquire, own, lease, operate and maintain, on its own or through
3 contracts, franchises, licenses, bulk purchases from the private sector or permits under
4 any of the schemes allowed in Republic Act No. 6957 (the Build- Operate-Transfer
5 Law, as amended), or joint ventures, adequate facilities and infrastructure required or
6 needed for the operation and development of the Ilocos Sur Ecozone, in coordination
7 with appropriate national and local government authorities and in conformity with
8 applicable laws thereon;

9 (h) Operate on its own, either directly or accredit/license other entities,
10 recreational and sports facilities, other tourism-related activities and, subject to a grant
11 of franchise by Congress, gaming activities such as horse racing, dog racing, gambling
12 casinos, internet and inter-active gaming and other games of chance: *Provided, That*
13 registered locator enterprises shall not operate gaming activities unless granted a
14 franchise by Congress;

15 (i) Subject to the approval of the President of the Philippines and the Monetary
16 Board of the Bangko Sentral ng Pilipinas (BSP), upon the recommendation of the DOF,
17 to raise or borrow adequate and necessary funds from local or foreign sources to
18 finance its projects and programs under this Act and, for that purpose, to issue bonds,
19 promissory notes and other forms of securities, and to secure the same by a guarantee,
20 pledge, mortgage, deed of trust or an assignment of all or part of its property or assets;

21 (j) Provide security for thr Ilocos Sur Ecozone in coordination with the national
22 and local governments. Military forces sent by the national government for the purpose
23 of defense shall not interfere in the internal affairs of the Ilocos Sur Ecozone and
24 expenditures for these military forces shall be borne by the national government. For
25 this purpose, the ISSEZFA may establish and maintain its security forces and
26 firefighting capability or hire others to provide the same;

27 (k) Protect, preserve, maintain and develop the virgin forests, beaches, coral
28 and coral reefs, and maintain ecological balance within the Ilocos Sur Ecozone;

29 (l) Create, operate and/or contract to operate such functional units or offices of

1 the ISSEZFA as it may deem necessary;

2 (m) Adopt, alter and use a corporate seal; contract, lease, buy, acquire, own or
3 otherwise dispose of personal and/or real property of whatever nature; sue and be sued;
4 and otherwise carry out its functions and duties as provided for in this Act;

5 (n) Issue certificates of origin for products manufactured or processed in the
6 Ilocos Sur Ecozone in accordance with prevailing rules of origin, and the pertinent
7 regulations of the PEZA, the DTI and/or the DOF;

8 (o) Issue working visas renewable every three (3) years to foreign executives
9 and foreign technicians with highly specialized skills which no Filipino possesses, as
10 certified by the Department of Labor and Employment (DOLE);

11 (p) Report to the Bureau of Immigration (BI) the names of the foreigners who
12 have been granted permanent resident status and working visas within thirty (30) days
13 after the issuance of such grant;

14 (q) Exercise such powers as may be essential, necessary or incidental to the
15 powers granted to it hereunder, as well as those that shall enable it to carry out,
16 implement and accomplish the purposes, objectives and policies of this Act; and

17 (r) Issue rules and regulations consistent with the provision of this Act as may
18 be necessary to accomplish and implement the purposes, objectives and policies
19 provided herein.

20 **SEC. 9. *Applicability Clause.*** – The provisions of Sections 30 to 41 of Republic
21 Act No. 7916, (The Special Economic Zone Act of 1995) as amended, on leases of
22 lands and buildings, land conversion, shipping and shipping register, protection of
23 environment, termination of business, registration of business enterprises, one-stop
24 shop center and on industrial harmony in the ecozones shall apply to the ISSEZFA.

25 **SEC. 10. *Tax Exemptions.*** – The ISSEZFA is hereby declared exempt from the
26 payment of all taxes, duties, fees, imports, charges, costs and service fees in any court
27 or administrative proceedings in which it may be a party.

1 The foregoing exemptions may, however, be entirely or partially lifted by the
2 President of the Philippines upon the recommendation of the Secretary of Finance, not
3 earlier than five (5) years from the effectivity of this Act, if the President shall find the
4 ISSEZFA to be self-sustaining and financially capable by then to pay such taxes,
5 customs duties, fees and other charges after providing for debt service requirements of
6 the ISSEZFA and of its projected capital and operating expenditures.

7 Furthermore, all donations made by any person or entity in favor of the
8 ISSEZFA shall be exempt from the payment of the donor's tax and the same shall be
9 considered as deductible from the gross income of the donor, pursuant to the NIRC of
10 1997, as amended.

11 **SEC. 11. *Administration, Implementation and Monitoring of Incentives.*** –
12 The ISSEZFA shall be responsible for the administration and implementation of the
13 incentives granted to its respective registered enterprises: *Provided*, That any incentive
14 administration policy adopted by the BOI for incentives common to all registered
15 enterprises shall be uniformly applied by the ISSEZFA.

16 The following are the duties and responsibilities of the ISSEZFA in the
17 administration of incentives:

18 (a) Adopt consistent procedures of administering incentives in accordance with
19 the guidelines established by the BOI and to amend the same when necessary;

20 (b) Adopt and implement systems and procedures affecting trade and customs
21 policies in accordance with the requirements established by the DOF and the BOI and
22 to amend the same when necessary;

23 (c) Submit data and information to the DOF and the BOI as required by any of
24 these agencies to ascertain consistency of investment policies and incentives, including
25 their implementation as provided in (a) and to ensure proper implementation of systems
26 and procedures affecting trade and customs policies as provided in (b); and

27 (d) Perform all other duties and responsibilities as may be required by the
28 President of the Philippines.

1 For proper monitoring, the BOI shall create a single database of all incentives
2 provided by all incentives-granting agencies, including the ISSEZFA and all
3 information thereto. Double-entry accounting shall be done by the BOI in recording all
4 incentives granted by the government for transparency purposes.

5 **SEC. 12. Board of Directors of the ISSEZFA.** – The powers of the ISSEZFA
6 shall be vested in and exercised by a board of directors, hereinafter referred to as the
7 Board, which shall be composed of the following:

8 (a) The chairperson who shall, at the same time, be the administrator of the
9 ISSEZFA;

10 (b) A vice chairperson who shall come from among the members of the Board;

11 (c) The Members consisting of:

12 (1) The governor of the Province of Ilocos Sur;

13 (2) The congressional representative of the district covering the site of the
14 Ilocos Sur Ecozone;

15 (3) The mayors of the municipalities of Cabugao and San Juan;

16 (4) One (1) representative from the domestic investors;

17 (5) One (1) representative from the foreign investors; and

18 (6) Two (2) representatives from labor from among the workers in the Ilocos
19 Sur Ecozone.

20 The governor, the congressional representative and the mayors of the
21 municipalities of Cabugao and San Juan shall serve as *ex officio* members of the Board,
22 whose terms in the Board correspond to their term as elected officials. The chairperson
23 and the members of the Board, except the *ex officio* members, shall be appointed by the
24 President of the Philippines to serve for a term of six (6) years unless sooner removed
25 for cause or dies or resigns voluntarily. In case of death, resignation or removal for
26 cause, the replacement shall serve only the unexpired portion of the term.

1 Except for the representatives of the business and labor sectors, no person shall
2 be appointed by the President of the Philippines as a member of the Board unless he is
3 a Filipino citizen, of good moral character, of proven probity and integrity, and a
4 degree holder in any of the following fields: economics, business, public
5 administration, law, management or their equivalent, and with at least ten (10) years
6 relevant working experience preferably in the field of management or public
7 administration.

8 The members of the Board shall each receive *per diem* at rates to be determined
9 by the Department of Budget and Management (DBM) in accordance with existing
10 rules and regulations: *Provided, however*, That the total per diem collected each month
11 shall not exceed the equivalent *per diem* for four (4) meetings. Unless and until the
12 President of the Philippines has fixed a higher *per diem* for the members of the Board,
13 such *per diem* shall not be more than Ten thousand pesos (P10,000.00) for every Board
14 meeting.

15 **SEC. 13. Powers and Duties of the Chairperson-Administrator.** – The
16 chairperson-administrator shall have the following powers and duties:

17 (a) Direct and manage the affairs of the ISSEZFA in accordance with the
18 policies of the Board;

19 (b) Establish the internal organization of the ISSEZFA under such conditions
20 that the Board may prescribe;

21 (c) Submit an annual budget and necessary supplemental budget to the Board
22 for its approval;

23 (d) Submit within thirty (30) days after the close of each fiscal year an annual
24 report to the Board and such other reports as may be required;

25 (e) Submit to the Board for its approval policies, systems, procedures, rules and
26 regulations that are essential to the operation of the Ilocos Sur Ecozone;

27 (f) Create a mechanism in coordination with relevant agencies for the promotion
28 of industrial peace, the protection of the environment and the advancement of the

1 quality of life; and

2 (g) Perform such other duties as may be assigned to him/her by the Board or
3 which are necessary or incidental to his/her office.

4 **SEC. 14. *Organization and Personnel.*** – The Board of Directors of the
5 ISSEZFA shall provide for an organization and staff of its officers and employees.
6 Upon recommendation of the chairperson-administrator, the Board shall appoint and fix
7 the remuneration and other emoluments of its officers and employees in accordance
8 with existing laws on compensation and position classification: *Provided.* That the
9 Board shall have exclusive and final authority to promote, transfer, assign or reassign
10 officers of the ISSEZFA, any provision of existing law to the contrary notwithstanding:
11 *Provided, further.* That the chairperson-administrator may carry out removal of such
12 officers and employees.

13 The officers and employees of the ISSEZFA, including all members of the
14 Board, shall not engage, directly or indirectly, in partisan activities nor take part in any
15 election, except to vote.

16 No officer or employee of the ISSEZFA, subject to civil service laws and
17 regulations, shall be removed or suspended except for cause, as provided by law.

18 **SEC. 15. *General Manager.*** – The Board of Directors of the ISSEZFA shall
19 appoint a full-time professional and competent administrator and chief executive officer
20 for the ISSEZFA whose compensation shall be determined by its Board of Directors
21 and shall be in accordance with the revised compensation and position classification
22 system. The administrator as chief executive officer of the ISSEZFA shall be
23 responsible to the Board and to the President of the Philippines for the efficient
24 management and operation of the ISSEZFA.

25 **SEC. 16. *Legal Counsel.*** – The ISSEZFA shall have its own internal legal
26 counsel under the supervision of the Office of the Government Corporate Counsel
27 (OGCC). When the exigencies of its businesses and operations demand it, the
28 ISSEZFA may engage the services of an outside counsel, either on a case to case or on
29 a fixed retainer basis.

CHAPTER IV

INCENTIVES TO ECOZONE ENTERPRISES/INVESTORS

SEC. 17. *Incentives to Registered Enterprises.* – The ISSEZFA shall provide the following incentives to the registered enterprises located therein to the extent of the activity/project:

(a) Income Tax Holiday (ITH) – Registered enterprises shall be entitled to an ITH from the start of their commercial operations to the extent of their activity under the following categories:

(1) Category A – Registered domestic enterprises producing/rendering new products/services or having strong backward or forward linkages shall be entitled to a six (6)-year ITH.

(2) Category B – Registered export enterprises shall be entitled to a six (6)-year ITH: Provided, That the export enterprise shall be entitled to an eight (8)-year ITH if it complies with the following:

(i) Large capital investments or sizeable employment generation; or

(ii) Use of high level of technology.

Registered enterprises embarking on new investments that are listed in the current Investment Priorities Plan (IPP) shall be entitled to incentives provided herein pertaining to the new investments and subject to such terms and conditions as the Board of Investments (BOI) may determine.

Additional investments in the project shall be entitled to the ITH corresponding to such investments as may be determined by the BOI.

Additional ITH may be granted for as long as the investment is made on the same project: *Provided*, That the project is listed in the IPP at the same time the additional investment in the project is made: *Provided, further*, That the entitlement period for additional investments shall not exceed three (3) times the period provided under this subsection: *Provided, however*, That the total ITH period for an export

1 enterprise availing of an eight (8)-year ITH shall not exceed twenty (20) years. Any
2 unused incentives shall therefore be deemed forfeited if not used during the incentive
3 period.

4 Enterprises registered with the ISSEZFA are required to share in the special
5 development fund of the BOI for investment promotion projects of the government
6 equivalent to one percent (1%) of the ITH granted for every application.

7 The Bureau of Internal Revenue (BIR) shall require a registered enterprise
8 availing of the ITH or the net operating loss carryover (NOLCO) to secure a certificate
9 of eligibility from the ISSEZFA before submitting its income tax return (ITR) with the
10 ISSEZFA for validation.

11 Failure to secure certification and/or to file the ITH or the NOLCO availment
12 for validation by the ISSEZFA within forty-five (45) days from the last day of statutory
13 filing date for ITR shall cause the forfeiture of the availment for the taxable period.

14 (b) Net Operating Loss Carryover (NOLCO) – The net operating loss of the
15 business or enterprise during the first three (3) years from the start of commercial
16 operations which have not been previously offset as a deduction from the gross income
17 shall be carried over as a deduction from the gross income for the next five (5)
18 consecutive years immediately following the year of such loss: *Provided, however,*
19 That operating loss resulting from availment of incentives provided in this Code shall
20 not be entitled to the NOLCO.

21 Registered enterprises availing of the ITH as herein provided shall not be
22 entitled to avail of the NOLCO.

23 (c) Imposition of a Tax Rate of Five Percent (5%) on Gross Income Earned
24 (GIE) – Except for real property tax on land, no local and national taxes, as prescribed
25 under Republic Act No. 8424, also known as “the National Internal Revenue Code of
26 1997, As Amended”, such as the income tax, the excise tax and the franchise taxes shall
27 be imposed on business establishments operating within the Ilocos Sur Ecozone. In lieu
28 thereof, there shall be imposed a tax of five percent (5%) of the gross income earned by
29 all the business enterprises within the ISSEZFA and remitted as follows:

1 (1) Two per centum (2%) to the national government;

2 (2) Two per centum (2%) to the Province of Ilocos Sur;

3 (3) One-half per centum (1/2%) to be shared by the municipalities affected by
4 the declaration of the ISSEZFA in proportion to their income from business activities
5 of the zone; and

6 (4) One-half per centum (1/2%) to the ISSEZFA.

7 All persons and service establishments in the Ilocos Sur Ecozone that are not
8 covered by Section 17 hereof shall be subject to national and local taxes under the
9 NIRC of 1997, as amended, and the Local Government Code.

10 (d) Accelerated Depreciation – Accelerated depreciation of plant, machinery
11 and equipment that are reasonably needed and actually used for the production and
12 transport of goods and services may be allowed using a rate not exceeding twice the
13 rate which would have been used had the annual allowance been computed in
14 accordance with the rules and regulations prescribed by the Secretary of Finance and
15 the provisions of the NIRC of 1997, as amended.

16 (e) Capital Equipment Incentives – Importations of capital equipment, spare
17 parts, tools and dye, or those required for pollution abatement and control, cleaner
18 production and waste reduction including consignment thereof by registered enterprises
19 upon the effectivity of this Act shall be exempted to the extent of one hundred percent
20 (100%) of the taxes and customs duties: *Provided*, That the importation thereof shall be
21 used exclusively by the registered enterprise in its registered activity within the Ilocos
22 Sur Ecozone: *Provided, further*, That the importation of machinery and equipment and
23 accompanying parts shall comply with the following conditions:

24 (1) These are not manufactured domestically in sufficient quantity, of
25 comparable quality and at reasonable prices;

26 (2) These are reasonably needed and will be used exclusively by the registered
27 enterprise in the manufacture of its products, unless prior approval of the ISSEZFA is
28 secured for the part-time utilization of said equipment in a non-registered activity to

1 maximize usage thereof or the proportionate taxes and duties are paid on a specific
2 equipment and machinery being permanently used for non-registered activities; and

3 (3) Approval of the ISSEZFA was obtained by the registered enterprise for the
4 importation of such machinery, equipment and spare parts.

5 Approval of the ISSEZFA must be secured before any sale, transfer or
6 disposition of the imported capital equipment, machinery or spare parts is made:
7 *Provided*, That if such sale, transfer or disposition is made within the first five (5) years
8 from the date of importation, any of the following conditions must be present:

9 (i) If made to another enterprise enjoying tax and duty exemption on imported
10 capital equipment;

11 (ii) If made to another enterprise not covered by part (i) hereof, upon payment
12 of the taxes and duties on the net book value of the capital equipment to be sold;

13 (iii) Exportation of the capital equipment, machinery, spare parts or source
14 documents or those required for pollution abatement and control; and

15 (iv) For reasons of proven technical obsolescence.

16 When the aforementioned sale, transfer or disposition is made under any of the
17 conditions provided for in the foregoing paragraphs other than paragraph (ii), the
18 registered firm shall not pay the taxes and duties waived on such items: *Provided*,
19 *further*, That if the registered enterprise sells, transfers or disposes the aforementioned
20 imported items without prior approval within five (5) years from the date of
21 importation, the registered enterprise and the vendee, transferee or assignee shall be
22 solidarily liable to pay twice the amount of the tax and duty exemption given it:
23 *Provided, finally*, That even if the sale, transfer or disposition of the capital equipment,
24 machinery or spare parts is approved after five (5) years from the date of importation,
25 the registered enterprise is still liable to pay the taxes and duties based on the net book
26 value of the capital equipment, machinery or spare parts if it has violated any of its
27 registration terms and conditions. Otherwise, it shall no longer be subject to the
28 payment of the taxes and duties waived thereon.

1 The purchase of machinery, capital equipment, raw materials, supplies, parts
2 and semi-finished products used in the fabrication of machinery and capital equipment
3 by a registered export-oriented enterprise from a domestic manufacturer shall be
4 subject to zero percent (0%) value-added tax.

5 The registered export-oriented enterprise shall be granted a tax credit
6 equivalent to the amount of duties that would have been waived on the machinery,
7 capital equipment, raw materials, supplies, parts and semi-finished products used in the
8 fabrication of machinery and capital equipment, had these items been imported, upon
9 its submission to the Department of Finance (DOF) of the bill of materials evidencing
10 the transaction value of such and other pertinent documents, for verification and proper
11 endorsement.

12 The registered export enterprise availing of the incentive provided under the
13 immediately preceding two (2) paragraphs shall be subject to the following: (i) that said
14 capital equipment, machinery and spare parts will be used exclusively by the registered
15 enterprise in its registered activity; (ii) that the capital equipment or machinery where
16 the raw materials, supplies, parts and semi-finished products were used would have
17 qualified for tax- and duty-free importation; and (iii) that the approval of the ISSEZFA
18 is obtained by the registered enterprise. If the registered enterprise sells, transfers or
19 disposes of these machineries, capital equipment and spare parts, the provision in the
20 preceding paragraphs for such disposition shall apply.

21 This incentive shall be deemed waived if application for tax credit under this
22 subsection was not filed within one (1) year from the date of delivery.

23 (f) Tax-and-Duty Free Importation-The importation of source documents by
24 information technology registered enterprises shall be eligible for tax- and duty-free
25 importation.

26 (g) Raw Materials Incentives – Every registered export-oriented enterprise shall
27 enjoy a tax credit equivalent to the internal revenue taxes and customs duties paid on
28 the supplies, raw materials and semi-manufactured products: *Provided*, That the same
29 are not sufficient in quantity, quality or are not competitively priced which are used in
30 the manufacture, processing or production of its export products forming part thereof,

1 exported directly and indirectly by the registered export-oriented enterprise based on
2 the actual taxes and duties paid for such materials/supplies/semi-manufactured products
3 by the registered enterprise.

4 This incentive shall be deemed waived if application for tax credit under this
5 subsection was not filed within one (1) year from the date of exportation of the final
6 product.

7 (h) Incentives on Breeding Stocks and Genetic Materials – Importation of
8 breeding stocks and genetic materials within ten (10) years from the date of registration
9 of commercial operations of the enterprise shall be exempt from all taxes and duties:
10 *Provided*, That such breeding stocks and genetic materials are reasonably needed in the
11 registered activity and approved by the ISSEZFA.

12 The availment of the incentives by a registered enterprise shall be subject to the
13 following: (1) that said breeding stocks and genetic materials would have been
14 qualified for tax- and duty-free importation under the preceding paragraph; (2) that the
15 breeding stocks and genetic materials are reasonably needed in the registered activity;
16 (3) that approval of the ISSEZFA has been obtained by the registered enterprise; and
17 (4) that the purchase is made within ten (10) years from the date of registration of
18 commercial operations of the registered enterprise.

19 This incentive shall be deemed waived if application for tax credit under this
20 subsection is not filed within one (1) year from the date of delivery.

21 (i) Exemption from Wharfage Dues- the provision of law to the contrary
22 notwithstanding, exports by a registered enterprise shall be exempted from wharfage
23 dues.

24 (j) Deferred Imposition of the Minimum Corporate Income Tax – The
25 minimum corporate income tax (MCIT) of two percent (2%) of the gross income as of
26 the end of the taxable year shall be imposed when the MCIT is greater than the income
27 tax computed under the NIRC of 1997, as amended, for the taxable year: *Provided*,
28 *however*, That said MCIT shall be imposed 11 only after the enterprise's entitlement
29 period to the income tax-based incentives.

(k) Tax Treatment of Goods and Services in the Ilocos Sur Ecozone

(a) Tax Treatment of Merchandise in the Ilocos Sur Ecozone – The free trade/freeport zone shall be operated and managed as a separate customs territory ensuring free flow or movement of goods within, into and exported out of the free trade/freeport zone. Importations of raw materials and capital equipment are tax- and duty-free. However, exportations or removal of goods from the free trade/freeport zones to the other parts of the Philippine territory shall be subject to customs and internal revenue regulations.

(i) Except as otherwise provided in this Act, foreign and domestic merchandise, raw materials, supplies, articles, equipment, machineries, spare parts and wares of every description, except those prohibited by law, brought into the zone to be sold, stored, broken up, repacked, assembled, installed, sorted, cleaned, graded or otherwise processed, manufactured, mixed with foreign or domestic merchandise, whether directly or indirectly related in such activity, shall not be subject to customs and internal revenue laws and regulations nor to local tax ordinances, any provision of law to the contrary notwithstanding.

(ii) Merchandise purchased by a registered Ilocos Sur Ecozone enterprise, from the customs territory and subsequently brought into the export processing zone, shall be considered as export sales and exportation thereof shall be entitled to the benefits allowed by law for such transaction.

(iii) Domestic merchandise sent from the Ilocos Sur Ecozone to the customs territory shall, whether or not combined with or made part of other articles likewise of local origin or manufactured in the Philippines while in the export processing zone, be subject to internal revenue laws of the Philippines as domestic goods sold, transferred or disposed of for local consumption.

(iv) Merchandise sent from the Ilocos Sur Ecozone to the customs territory shall, whether or not combined with or made part of other articles while in the zone, be subject to rules and regulations governing imported merchandise. The duties and taxes shall be based on the value of said imported materials (except when the final product is exempt).

1 (v) Domestic merchandise on which all internal revenue taxes have been paid, if
2 subject thereto, and foreign merchandise previously imported on which taxes have been
3 paid, or which have been admitted free of duty and tax, may be taken into the Ilocos
4 Sur Ecozone from the customs territory of the Philippines and be brought back thereto
5 free of quotas, duty or tax.

6 (vi) Subject to such regulations respecting identity and safeguarding of revenue
7 as the ISSEZFA may deem necessary, when the identity of an article entered into the
8 export processing zone under the immediately preceding paragraph has been lost, such
9 article when removed from the zone and taken to the customs territory shall be treated
10 as foreign merchandise entering the country for the first time, under the provisions of
11 the Tariff and Customs Code of the Philippines, as amended.

12 (vii) Articles produced or manufactured in the Ilocos Sur Ecozone and exported
13 therefrom shall, on subsequent importation into the customs territory, be subject to the
14 import laws applicable to like articles manufactured in a foreign country.

15 (viii) Unless the contrary is shown, merchandise taken out of the export
16 processing zone shall be considered for tax purposes to have been sent to customs
17 territory.

18 (b) Tax Treatment of Services – (i) Sale of service by an entity from the customs
19 territory to a registered ecozone or free trade enterprise, or by a registered ecozone or
20 freeport enterprise to another ecozone or freeport enterprise shall be treated as indirect
21 export and hence, entitled to the benefits allowed by law for such transaction; and
22 (ii) Sale or service by a registered ecozone or freeport enterprise to the customs territory
23 shall be subject to applicable internal revenue laws and regulations.

24 (l) Bonded Warehousing System- Registered export-oriented enterprise shall
25 have access to the utilization of the bonded warehousing system in accordance with the
26 rules and regulations of the BoC.

27 (m) Employment of Foreign Nationals – Subject to the provisions of Section 29
28 of Commonwealth Act No. 613, otherwise known as “The Philippine Immigration Act
29 of 1940”, as amended, a registered enterprise may employ foreign nationals in

1 supervisory or technical positions for a period not exceeding ten (10) years from its
2 registration: *Provided*, That when the majority of the capital stock of a registered
3 enterprise is owned by foreign investors, the positions of the president, treasurer and
4 general manager or their equivalents may be retained by foreign nationals beyond the
5 period set forth herein and such officer is the owner or a stockholder owning at least ten
6 percent (10%) of the outstanding capital stock of the registered enterprise and he/she
7 remains the owner or maintains his/her stockholdings therein.

8 Foreign nationals under employment contract within the purview of this
9 incentive, their spouses and unmarried children under twenty-one (21) years of age,
10 who are not excluded by Section 29 of Commonwealth Act No. 613, as amended, shall
11 be permitted to enter and reside in the Philippines during the period of employment of
12 such foreign nationals. They shall be issued multiple-entry visas, renewable every two
13 (2) years, and shall be allowed to enter and leave the Philippines without further
14 documentary requirements other than valid passports or other travel documents in the
15 nature of passports.

16 The foreign nationals admitted herein, as well as their respective spouses
17 and dependents, shall be exempt from: (1) obtaining alien certificates of registration
18 and emigration clearance certificates; and (2) securing alien employment permits (AEP)
19 and all types of clearances, permits, licenses or their equivalents required by any
20 government department or agency.

21 **SEC. 18. *Extension of Period of Availment.*** – The availment period of the
22 incentives provided herein may be extended by the ISSEZFA in the event that the
23 registered enterprise suffers operational *force majeure* or any event equivalent thereto,
24 impairing its viability.

25 **SEC. 19. *Duration of Incentives.*** – Enterprises registered with the ISSEZFA
26 may enjoy ITH or NOLCO granted by the latter prior to the availment of the five
27 percent (5%) Gross Income Earned (GIE).

28 Fiscal incentives under this Act shall be terminated after a cumulative period of
29 twenty (20) years from the date of registration or the start of commercial operations,
30 whichever is applicable, except that it could be extended with regard to industries

1 deemed indispensable to national development as determined by the ISSEZFA.

2 The industries exempted from this provision shall be recommended by the BOI,
3 with the concurrence of the secretaries of the DOF and the DTI.

4 **SEC. 20. *Incentive to Investors.*** – Any foreign national covered under
5 subsection (m) of Section 17 of this Act, who invests an amount of One hundred fifty
6 thousand US Dollars (US\$150,000.00), either in cash and/or equipment, in a registered
7 enterprise shall be entitled to an investor's visa: *Provided, That,*

8 (a) He is at least eighteen (18) years of age;

9 (b) He has not been convicted of a crime involving moral turpitude;

10 (c) He is not afflicted with any loathsome, dangerous or contagious disease; and

11 (d) He has not been institutionalized for any mental disorder or disability:

12 *Provided, further,* That in securing the investor's visa, the alien applicant shall be
13 entitled to the same privileges provided for under Section 17, last paragraph.

14 As a holder of an investor's visa, an alien shall be entitled to reside in the
15 Philippines while his investment subsists. For this purpose, he shall submit an annual
16 report, in the form duly prescribed for the purpose, to prove that he has maintained his
17 investment in the country. Should said alien withdraw his investments from the
18 Philippines, then the investor's visa issued to him shall automatically expire.

19 **SEC. 21. *Banking Rules and Regulations.*** – Existing banking laws and
20 rules/regulations of the BSP shall apply to banks and financial institutions to be
21 established in the Ilocos Sur Ecozone, such as those governing foreign exchange and
22 other current account transactions (trade and nontrade), local and foreign borrowings,
23 foreign investments, establishment and operation of local and foreign banks, foreign
24 currency deposit units, offshore banking units and other financial institutions under the
25 supervision of the BSP.

26 **SEC. 22. *Remittance of Earnings.*** – In the case of foreign investments, a
27 registered enterprise in the ISSEZFA shall have the right to remit earnings from the

1 investment in the currency in which the investment was originally made and at the
 2 exchange rate prevailing at the time of remittance, subject to the provisions of Section
 3 74 of Republic Act No. 265, (The New Central Bank Act), as amended.

4 CHAPTER V

5 NATIONAL GOVERNMENT AND OTHER ENTITIES

6 **SEC. 23. *Interpretation/Construction.*** – The powers, authorities and functions
 7 that are vested in the ISSEZFA are intended to decentralize governmental functions and
 8 authority and promote an efficient and effective working relationship among the Ilocos
 9 Sur Ecozone, the national government and the LGUs.

10 **SEC. 24. *Supervision and Coordination of Development Plans.*** – For purposes
 11 of policy direction and coordination, the Ilocos Sur Ecozone shall be under the direct
 12 control and supervision of the Office of the President.

13 **SEC. 25. *Authority of the Bureau of Customs (BoC) to Examine the Entry***
 14 ***and Exit of Imported Articles in the ISSEZFA.*** – The BoC, in coordination with the
 15 appropriate government agencies such as, but not limited to, the Departments of Trade
 16 and Industry, Agriculture, Transportation and Communications, and Health shall have
 17 the authority to examine the entry and exit of imported articles in the ISSEZFA for the
 18 purpose of determining: (a) the quantity and description of subject imported articles;
 19 and (b) compliance with the sanitary and agricultural requirements.

20 **SEC. 26. *Relationship with the Regional Development Council.*** – The
 21 ISSEZFA shall determine the development goals for the Ilocos Sur Ecozone within the
 22 framework of national development plans, policies and goals. The administrator shall,
 23 upon approval by the Board, submit the Ilocos Sur Ecozone plans, programs and
 24 projects to the Regional Development Council for inclusion and inputs to the overall
 25 regional development plan.

26 **SEC. 27. *Relationship with LGUs.*** – Except as herein provided, the LGUs
 27 comprising the Ilocos Sur Ecozone shall retain their basic autonomy and identity. The
 28 municipalities of Cabugao and San Juan, Province of Ilocos Sur shall operate and
 29 function in accordance with the Local Government Code of 1991. In case of any

SEC. 28. Auditing. – The Commission on Audit shall appoint a representative who shall be a full-time auditor of the ISSEZFA and assign such number of personnel as may be necessary to assist said representative in the performance of his/her duties. The salaries and emoluments of the assigned auditor and personnel shall be in accordance with pertinent laws, rules and regulations.

10 MISCELLANEOUS

11 **SEC. 29. *Separability Clause.*** – If any provision of this Act shall be held
12 unconstitutional or invalid, the other provisions not otherwise affected shall remain in
13 full force and effect.

14 **SEC. 30. Repealing Clause.** – All laws, executive orders or issuances or any
15 part thereof which are inconsistent herewith are hereby repealed or amended
16 accordingly.

SEC. 31. *Effectivity Clause.* – This Act shall take effect fifteen (15) days after its publication in at least two (2) national newspapers of general circulation.

19 Approved,