

Republic of the Philippines
HOUSE OF REPRESENTATIVES

Quezon City

TWENTIETH CONGRESS

First Regular Session



HOUSE BILL NO. 8930

Introduced by Rep. Arthur C. Yap

Explanatory Note

The aviation sector is a linchpin of Philippine economic development, connecting people, enabling tourism, facilitating trade, and contributing to employment. However, our competitiveness as an aviation hub is being hindered by outdated fiscal policies. Currently, import duties, value-added tax (VAT), and excise levies imposed on aircraft and spare parts significantly increase operational costs for local airlines and Maintenance, Repair, and Overhaul (MRO) providers. As a result, these entities are compelled to seek services abroad where favorable tax policies prevail. This loss of business opportunities has stunted the domestic MRO sector, limiting our ability to create high-value jobs, retain investments, and establish the Philippines as a regional aviation powerhouse.

The **Aviation Competitiveness and MRO Empowerment Act** aims to reverse this trend by eliminating financial and administrative barriers to the importation of aircraft and their components. The measure seeks to: (a) encourage more aircraft registrations under the Philippine flag; (b) incentivize MRO investments; and (c) align national aviation policy with Association of Southeast Asian Nations (ASEAN) and European best practices. It will further enhance operational efficiency, reduce aircraft downtime, improve passenger safety, and generate employment through high-skill aviation jobs.

Benchmark data from ASEAN and Europe reveal how similar fiscal policies have transformed local aviation sectors:

- **Singapore:** In accordance with the Goods and Services Tax (GST) Act of 1993, aircraft parts and supplies are exempt from GST and import duties, making the country a global leader in MRO services.¹

¹ Inland Revenue Authority of Singapore. (2022). GST Guide for the Aerospace Industry (Seventh Edition). Retrieved from [https://www.iras.gov.sg/media/docs/default-source/e-tax/etax-guide_guide-for-the-aerospace-industry-\(6th-edition\).pdf?sfvrsn=c313d2a1_14](https://www.iras.gov.sg/media/docs/default-source/e-tax/etax-guide_guide-for-the-aerospace-industry-(6th-edition).pdf?sfvrsn=c313d2a1_14)

- **Malaysia:** The government provides income tax exemptions for MRO activities under its aerospace industry development plan.²
- **Thailand:** Eligible companies can receive exemptions from import duties on machinery and raw materials, including the manufacture as well as repair of aircraft and aircraft parts, used in production for export. This reduces the initial capital expenditure and operational costs for MRO facilities.³
- **Brunei:** According to a press release from its Ministry of Finance, Brunei has a 0% import tax on unmanned aircraft, including parts.⁴
- **Indonesia:** Recently effective Finance Ministry Regulation No. 81/2024 has eliminated taxes on imported aircraft parts and aviation safety components.⁵ This follows recent government efforts to reduce maintenance costs and lower domestic airfare.⁶
- **Vietnam:** Alongside other aviation services⁷, repairs to foreign aircraft are subject to 0% VAT – contingent on compliance with pertinent import and export procedures.⁸
- **The European Union (EU)** in general exempts from VAT the supply, modification, repair, and maintenance of aircraft operating for commercial flights mostly on international routes.⁹ The required amount of international flights for European airlines to qualify for this exemption, however, varies among Member States.¹⁰
- **The United Kingdom** allows for the suspension of duties on aircraft parts and other goods used in the manufacture and MRO of aircraft that are imported with a certificate of airworthiness issued by the Civil Aviation Authority.¹¹ Both the EU and the UK provide Inward Processing Relief (IPR) for non-EU member states¹² / non-UK aircraft

² Malaysian Investment Development Authority. (2024). Guideline and Procedures for Incentive of Aerospace Industry. Retrieved from https://www.mida.gov.my/wp-content/uploads/2024/03/Guideline-for-Aerospace-Industry_12032024.pdf

³ Thai Board of Investments. Retrieved from https://www.boi.go.th/upload/menu/Aerospace_83259.pdf

⁴ Brunei Ministry of Finance and Economy. (2023). Press Release: Amendments to the Customs and Import and Excise Duties, Effective 17 May 2023. Retrieved from <https://bdnsw.mofe.gov.bn/PublishingImages/Pages/Home/AMENDMENTS%20TO%20THE%20CUSTOMS%20DUTIES%2017%20MAY%202023.pdf>

⁵ DDTC Indonesia. (2024). Unofficial Translation: Minister of Finance Regulation No. 81 of 2024. Retrieved from <https://ddtc.co.id/uploads/pdf/Minister-of-Finance-Reg-81-2024.pdf>

⁶ Business-Indonesia. (2024). Airfares to drop 10% for Year-End Holidays, Gov't Promises. Retrieved from <https://business-indonesia.org/news/this-week-s-headlines-nov-23-29-2024>

⁷ Viva Business Consulting. (2024). Value-Added Tax 0%. Retrieved from <https://vivabcs.com.vn/resources/company-in-vietnam/vat-rate-value-added-tax-0-percent/>

⁸ Luat Vietnam English Legal Normative Documents. (2023). List of VAT tax-liable goods of 0%, 5%, and 10%. Retrieved from <list-of-vat-tax-liable-goods-of-0-5-and-10-4729-94070-article.html>

⁹ European Council. (2006). Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax. Title IX, Chapter 7, Article 148 (f). Retrieved from <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32006L0112>

¹⁰ Norton Rose Fulbright. (2016). VAT exemption for aircraft – scope of the exception for international airlines. Retrieved from <https://www.nortonrosefulbright.com/en/knowledge/publications/0b53feb3/vat-exemption-for-aircraft---scope-of-the-exemption-for-international-airlines#:~:text=The%20European%20Union%20value%20added,more%20than%2080%25%20in%20France.>

¹¹ GOV.UK. (2023). Using the airworthiness scheme for imported aircraft parts. Retrieved from <airworthiness-scheme-customs-tariff-rules-on-imported-aircraft-parts>

¹² European Commission Tax and Customs Union. Inward processing. Retrieved from https://taxation-customs.ec.europa.eu/customs-4/customs-procedures-import-and-export/what-importation/inward-processing_en

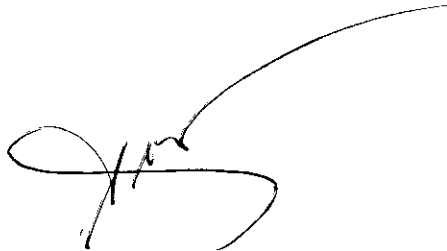
imported into their respective customs territories for repair, on the condition of re-export upon completion of works.¹³

- **Norway** relieves customs duties for the importation of aircraft and aircraft parts, aircraft engines and engine parts, as well as consumer goods for use in aircraft that fly chiefly internationally.¹⁴
- Repair and maintenance work on aircraft, as well as the materials and goods used by the company providing MRO work, are also zero-rated in **Iceland**, provided that the aircraft is not private.¹⁵
- In **Switzerland**, aircraft imported by a Swiss or foreign air operator are exempt from Swiss VAT as long as they are permanently available for charter to the Air Operator Certificate holder under an operation and charter agreement or a lease with the owner. If the final beneficial owner of the aircraft resides in Switzerland, the VAT-free import from Switzerland is also applicable. The cash-intensive and time-consuming process of reclaiming Swiss import VAT is therefore relieved for the owner.¹⁶

The Philippines must implement similar incentives to remain competitive. By exempting aircraft and spare parts from duties and VAT, we create a level playing field for Filipino aviation players, draw foreign MRO operators, and catalyze the growth of Clark, Cebu, and other regional aviation centers.

The bill ensures proper safeguards through stringent eligibility criteria, international certification standards, regulatory monitoring, and a sunset clause. It is a strategic investment in the future of Philippine aviation.

Approval of this measure is earnestly sought.

A handwritten signature in black ink, consisting of a stylized 'S' followed by a horizontal line and a small flourish.

¹³ Y&A Group, LP. Inward Processing. Retrieved from <https://yagrouplp.com/resources/inward-processing/#:~:text=Inward%20Processing%2C%20or%20IP%2C%20is,Significant%20repairs>

¹⁴ LOVDATA. (2024). Regulations concerning customs duty. Retrieved from <https://l2baviation.com/tax-regulations/norway/#:~:text=The%20main%20rule%20is%20that,in%20taxable%20activities%20in%20Norway>.

¹⁵ KPMG. (2024). Icelandic Tax Facts 2024. Retrieved from <https://assets.kpmg.com/content/dam/kpmg/is/pdf/2024/01/KPMG-Tax-Facts-2024.pdf>

¹⁶ Blum&Grob. (n.d.). Tax Free Import of Aircraft in Switzerland. Retrieved from <https://blumgrob.ch/en/factsheet/tax-free-import-of-aircraft-in-switzerland/#:~:text=A%20Swiss%20or%20foreign%20AOC,lease%20agreement%20with%20the%20owner>.

**Republic of the Philippines
HOUSE OF REPRESENTATIVES**

Quezon City

TWENTIETH CONGRESS

First Regular Session

HOUSE BILL NO. 8930

Introduced by Rep. ARTHUC C. YAP

AN ACT PROVIDING TAX INCENTIVES FOR THE IMPORTATION OF AIRCRAFT AND SPARE PARTS TO STRENGTHEN THE PHILIPPINE MAINTENANCE, REPAIR, AND OVERHAUL (MRO) INDUSTRY, AND FOR OTHER PURPOSES

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

SECTION 1. Title. – This Act shall be known as the "Aviation Competitiveness and MRO Empowerment Act."

SECTION 2. Declaration of Policy. – It is the policy of the State to enhance the global competitiveness of the Philippine aviation sector by strengthening the Maintenance, Repair, and Overhaul (MRO) industry. The State shall reduce operational costs and regulatory bottlenecks by offering targeted fiscal incentives aligned with global best practices, thereby attracting investments and ensuring the long-term viability of aviation services in the country.

SECTION 3. Definition of Terms. – As used in this Act:

- (a) "Aircraft" – Any machine or device capable of atmospheric flight, including fixed-wing and rotary-wing types, as well as unmanned aerial vehicles (UAVs).
- (b) "Spare Parts" – Components, equipment, or accessories necessary for aircraft and UAV operation, maintenance, and safety.
- (c) "MRO" – Maintenance, Repair, and Overhaul activities conducted on aircraft.
- (d) "Qualified MRO Entity" – A company certified by the Civil Aviation Authority of the Philippines (CAAP) and approved by the Original Equipment Manufacturer (OEM) operating within designated tax-free zones.
- (e) "Designated Tax-Free Zone" – An area declared by law or regulation to offer fiscal incentives and simplified procedures for aviation-related services.

SECTION 4. Coverage and Eligibility. – This Act shall apply to:

- (a) The importation of aircraft, engines, and spare parts by air operator certificate (AOC) holders and Qualified MRO Entities registered in the Philippines;

- (b) MRO activities certified by the OEM and conducted within designated tax-free zones;
- (c) Entities compliant with CAAP, Department of Finance (DOF), and Bureau of Customs (BOC) registration and reporting requirements.

SECTION 5. Tax Exemptions. – The following shall be exempt from customs duties, VAT, excise taxes, and other import levies:

- (a) Aircraft and spare parts imported by Qualified MRO Entities and Philippine-registered AOC holders, as well as Approved Training Organizations (ATO);
- (b) Aircraft parts used exclusively for commercial aviation ATOs and certified maintenance;
- (c) Aircraft registered under foreign jurisdictions that are visiting the Philippines for maintenance or repairs at an OEM-certified MRO; and
- (d) Imported aircraft with CAAP-issued certificates of registration and airworthiness for public transport as well as for ATOs.

SECTION 6. Role of Regulatory Agencies.

- (a) **CAAP** – Certify Qualified MRO Entities and enforce international maintenance standards and maintenance standards prescribed by the OEM;
- (b) **BOC** – Facilitate clearance, documentation, and post-entry audits;
- (c) **DOTr** – Oversee inter-agency coordination, impact monitoring, and industry consultations; and
- (d) **DOF/BIR** – Draft and issue implementing rules within ninety (90) days of enactment.

SECTION 7. Compliance and Enforcement Mechanisms.

- (a) Beneficiaries, OEM, and CAAP-certified MRO facilities shall submit annual audit and compliance reports to the DOTr, DOF, and CAAP;
- (b) Random inspections and performance reviews shall be conducted by regulatory bodies; and
- (c) Misrepresentation or misuse of tax-free privileges shall be grounds for disqualification and penalty.

SECTION 8. MRO Certification and Standards. – MRO providers must:

- (a) Be certified by an OEM and comply with all standards of the OEM for each aircraft type; and
- (b) Comply with the International Civil Aviation Organization (ICAO) and ASEAN aviation standards and CAAP regulatory oversight.

SECTION 9. Penalties for Abuse. – Violators shall:

- (a) Pay double the duties and taxes due;
- (b) Forfeit their fiscal privileges for up to five (5) years; and
- (c) Risk permanent revocation of MRO certifications, subject to CAAP review.

SECTION 10. Sunset Clause. – This Act shall be valid for ten (10) years from effectivity. Within twelve (12) months before the expiry, the DOTr and DOF shall conduct a joint review and submit a report to Congress recommending renewal, amendment, or termination.

SECTION 11. Repealing Clause. – All inconsistent laws, decrees, and regulations are hereby repealed or modified accordingly.

SECTION 12. Separability Clause. – If any provision of this Act is declared invalid, the rest shall remain in force.

SECTION 13. Effectivity Clause. – This Act shall take effect fifteen (15) days after publication in the Official Gazette or a national newspaper of general circulation.

Approved.