



PHILIPPINE ECONOMIC ZONE AUTHORITY

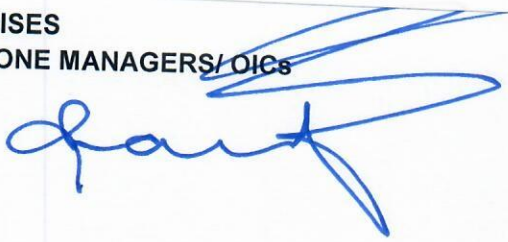
PEZA - DTS



1512-2020-00123

MEMORANDUM CIRCULAR NO. 2020-053

TO : ALL CONCERNED ECOZONE ENTERPRISES
ALL PEZA ZONE ADMINISTRATORS / ZONE MANAGERS/OICs

FROM : BGen CHARITO B. PLAZA, MNSA, PhD
Director General 

DATE : 24 NOVEMBER 2020

SUBJECT : GUIDELINES ON THE ADDITIONAL DEDUCTION OF COVID-RELATED EXPENSES FOR PURPOSES OF COMPUTING THE 5% GROSS INCOME TAX

The PEZA Board, in its meeting on 21 May 2020, approved the recommendation of PEZA Management to adopt certain measures to assist PEZA-registered enterprises to be able to operate during the community quarantine period imposed by the National Government under the State of Public Health Emergency due to Corona Virus Disease (COVID-19).

Among such measures approved by the PEZA Board pertains to additional deductible expenses for purposes of computing the 5% Gross Income Tax (5% GIT), as follows:

- “2. For PEZA-registered enterprises entitled to/availing of the 5% Gross Income Tax (5% GIT) incentive, to include as deductible expense in determining the gross income earned the following expenses incurred to maintain its operations during the quarantine period in compliance with national government issuances:
- a. Costs of providing temporary housing/accommodation to the employees of the PEZA enterprise, including accommodations inside the facility of the enterprise for stay-in employees as required by National Government issuances;
 - b. Costs for providing shuttle services for the employees;
 - c. Port charges in the Manila international ports, namely the MICP, the Port of Manila, and the NAIA) arising from the delays in the release of shipments at the said ports immediately after the implementation of the ECQ in NCR;
 - d. Costs for disinfection conducted by the company to its work area/facility/premises, and cost of PPEs and sanitation requirements; and
 - e. COVID tests for the employees.”

The Bureau of Internal Revenue (BIR) through Commissioner Caesar Dulay, in a letter dated 27 October 2020 (reference no. M-076-2020) acting on the request of PEZA based on the above-cited PEZA Board Resolution, affirmed that the following COVID related expenses may be considered as direct costs for purposes of computing the 5% Gross Income Tax:

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- “1. The cost of temporary accommodation to employees of the enterprise during the time of quarantine may be considered a direct cost, as apparently without incurring this cost, no services may be produced. However, only the cost of temporary accommodations for Operations and Maintenance personnel may be considered as direct cost, as they are employees whose work can directly be attributed to the PEZA-registered services.
2. The cost for shuttle services may be considered a direct cost if provided and incurred for Operations and Maintenance personnel only.
3. The port charges in MICP, Port of Manila and NAIA arising from delays in the release of shipments at the said ports immediately after the implementation of the ECQ in NCR, may be considered direct costs pursuant to Section 27 (A) of the National Internal Revenue Code of 1997, as amended (Tax Code), which defines cost of goods manufactured or sold to include all costs of production of finished goods, such as raw materials used, direct labor and manufacturing overhead, freight cost, insurance premiums and other costs incurred to bring in raw materials to the factory or warehouse.” Thus, port charges arising from delays in the release of shipments only for Maintenance personnel and the work area/facility/premises which such personnel work in, may be considered direct costs and may be deducted from its gross income since they are apparently costs under “supplies used” in the rendition of the registered services, as provided under RR No. 11-05.”

Please be advised however that the BIR finds COVID tests expense “not directly related to the rendition of its registered service, since the enterprise can still carry on its PEZA-registered services without having to incur cost for the COVID-19 tests. Hence, unless it can be proven that such COVID tests are directly related to the registered service, then they should be classified as operating expenses and must be disallowed as direct cost.”

For your guidance.

HOA/RVSS/cvc
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