Republic of the Philippines
Philippine Economic Zone Authority

MEMORANDUM ORDER NO. 2023-011-A

TO : **ALL PEZA REGISTERED BUSINESS ENTERPRISES**
ALL ZONE ADMINISTRATORS / ZONE MANAGERS / OFFICERS-IN-CHARGE

FROM : **TERESO O. PANGA**
Director General

DATE : **20 SEPTEMBER 2023**

SUBJECT : **DELEGATION TO THE ZONE OFFICES OF THE APPROVAL OF LETTERS OF AUTHORITY (LOA) ON: (1) LOCAL SALES AND (2) DROP-OFF EXPORT**

Consistent with its thrust to further enhance the ease of doing business and facilitate processing of Letters of Authority (LOA), PEZA Management has decided to delegate to the PEZA Zone Offices the processing and approval of Letters of Authority for the following:

A. New applications and applications for renewal of Letter of Authority (LOA) for Local Sales by PEZA Registered Export Enterprises (REEs), i.e., manufacturing and IT, provided that the local sales do not exceed the allowable/ prescribed limit under PEZA and CREATE Rules and Regulations; and,
B. New and renewal applications for Letter of Authority (LOA) for Drop-off Sales of manufactured goods / services.

In line with this, all concerned REEs, Zone Administrators / Zone Managers / Officers-in-Charge are advised of the following guidelines which shall govern the filing and processing of applications for the above-cited LOAs.

A. LOA FOR LOCAL SALES

1. What is Local Sales?

A "Local Sale" transaction is a sale of PEZA-registered Export Enterprise (Export or IT) of its manufactured goods / services, in relation to their PEZA-registered activities, to the domestic market / customs territory. Further, when the products / services sold / rendered by a PEZA-registered enterprise to another Export Enterprise client which will not form part of the final export product or export services of the latter shall likewise be considered as Local Sales.

2. Allowable / Prescribed Limit for Local Sales

PEZA RBEs registered prior to the CREATE Act are allowed to sell to the domestic market the equivalent of 30% of its total sales for foreign-owned RBEs. On the other hand, Filipino-owned RBEs are allowed to sell to the local market up to 50% of its total sales.

Under Republic Act No 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act on 11 April 2021, an export enterprise shall export at least 70% of its total production or output. Thus, **manufactured products/services of *projects registered after the effectivity of the CREATE Act may be sold to the local market with a thresh hold of thirty percent (30%) of total sales, regardless of nationality.***

3. Who should apply for Letter of Authority for Local Sales?

PEZA Registered Export Enterprises and IT Enterprises.

4. When to file the application for LOA on Local Sales?

RBEs are required to file the application for a Letter of Authority on Local Sales prior to the RBE's actual local sale transactions to avoid penalties. For LOA on Local Sales renewal, RBE's should file the application thirty (30) days prior the end of the accounting period or expiration date of LS – LOA.

5. Procedure for Filing of Application/Request for Authority to engage in Local sales:

The RBE applicant shall submit, either through email or physically, the duly filled-up letter request *using the proforma application-letter which may be downloaded from the PEZA website (under Resources – downloads – EOD LOA – Proforma Applications)* addressed to the respective Zone Manager of the PEZA zone where the RBE is located with complete documentary requirements.

*The pro forma application/request should be in the **RBE's letterhead** and signed by the RBE's highest ranking official or authorized signatory.*

6. Types and Determination of Local Sales Rate:

No.	TYPE	VALUE OF LOCAL SALES FOR PURPOSES OF DETERMINING RATE
1.	Local sales of registered manufactured products	Total value of manufactured PEZA registered products delivered and sold to domestic market.
2.	Local sales of registered services by IT-Registered RBEs	Sale of PEZA-registered services to the domestic market
3.	Local sales by subcontracting/ Tolling Services *-Rendering of manufacturing services to a domestic enterprise-client where the materials are provided by the said client*	Composition of the total value of local sales, i.e. a. Value of raw materials provided by the local clients b. Other production inputs provided by the RBE c. Value of service fee charged by the RBE
4.	Local sales of registered services by deployment of personnel to the domestic enterprise-client's facility*	Value of services undertaken by the RBE through deployment of personnel at the local client's facility for the activity registered with PEZA, including other production inputs, if applicable.
5.	Local sales of manufactured product through Drop-Off *-Sales to clients abroad but directly delivered to the customs territory, even if for the account of the client abroad*	Total value of manufactured PEZA registered products delivered and sold to domestic market.

Income from local sales of registered services by deployment of personnel is not covered by PEZA incentive even if within the allowable limit, thus subject to the Regular Corporate Income Tax

7. Documentary Requirements for New and Renewal Applications

a. New applications for LOA on Local Sales (no previous local sales transactions)

1. Duly accomplished Proforma LOA Application
2. Certification by the RBE's highest responsible officer that the company has not engaged in local sales, duly attested/endorsed by the PEZA Zone Administrator/Zone Manager/Officer-in-Charge (for RBEs with multiple Zone Locations, RBE shall submit separate Certificate per each site duly attested by their respective Zone Administrator/Zone Manager/Officer-in-Charge where RBE is located)

NOTE: Since the eLOA system for new applications for LOA on Local Sales has already undergone user acceptance testing (UAT) and has gone live, this will be turned over to the Zone Offices once adjustments have been made in the system.

New applications for LOA on local sales shall be processed thru eLOA System (eloa.peza.gov.ph). eLOA System covers the Screening of New Applications, Evaluation Process, Approval and Release of LOA.

b. Renewal of LOA on Local Sales

Requirements	Finished Goods / Products	IT Services	Subcontracting / Tolling Services	Deployment of Personnel to the Domestic Client's Facility	Drop-Off to Local Market or Domestic Enterprise
1. Duly accomplished Proforma LOA Application	✓	✓	✓	✓	✓
2. Duly signed Form EOD.F.1.002 (Liquidation Report on Local Sales of Finished Products) and validated and certified by the respective PEZA Zone Administrator / Zone Manager / Officer-in-Charge	✓	✓	✓	X	X
3. Duly signed Form EOD.F.1.003	X		✓	X	X

(Liquidation Report on Local Subcontracting Services)		X			
4. Duly signed Form EOD.F.1.005 (Liquidation Report For Local Sales Of I.T. Services)	X	✓	X	X	X
5. Duly signed Form EOD.1.F.007 – (Monitoring Liquidation Ledger on Local Sales With Deployment of Personnel)	X	X	X	✓	X
6. Duly signed Form EOD.F.1.011 Liquidation Report on Drop-Off Export Sale to a Local Entity	X	X	X	X	✓
7. Duly signed Form EOD.F.1.006 (Reconciliation of Liquidation report on Local Sales of PEZA Export and IT Enterprises) – to be submitted fifteen (15) days after the due date of the corresponding Audited Financial Statements (AFS) and Income Tax Returns (ITR); if the amount of total sales in the EOD.F.1.002 (Liquidation Report on Local Sales of Finished Products)	✓	✓	✓	✓	✓
8. Certification from the respective PEZA Zone Administrator /	✓ if multi-sites	✓	✓ if multi-sites	✓	✓ if multi-sites

Zone Manager / Officer-in-Charge that the RBE has no local sales in their respective zone/s		If multi-sites		if multi-sites	
9. Updated Delivery instruction issued by Client Abroad indicating the (a) Description of Finished Goods and (b) Local Client Name and complete address	X	X	X	X	✓
10. Copy of BIR received VAT returns with proof of payment, if applicable, reconciled with RBE's VAT report to PEZA on its local sales	✓	✓	✓	✓	✓

Note: For RBEs with multiple zone locations, RBE shall submit separate liquidation reports per each zone location, duly attested by RBE's respective PEZA Zone Administrator / Manager / OIC where RBE is located.

8. Related PEZA Forms

EOD.1.F.002 - Liquidation Report On Local Sales Of Finished Products
EOD.1.F.003 - Liquidation Report On Local Subcontracting Services
EOD.1.F.004 – Monthly Summary Report on Local Sales of I.T. Services (for IT Enterprises only)
EOD.1.F.005 - Liquidation Report For Local Sales Of I.T. Services
EOD.1.F.006 - Reconciliation Of Liquidation Report On Local Sales Of PEZA Export And I.T. Enterprises
EOD.1.F.007 - Monitoring Liquidation Ledger on Local Sales With Deployment of Personnel
EOD.1.F.011 – Liquidation Report on Drop-Off Export Sale to a Local Entity

The above-listed reports forms may be downloaded in the PEZA Website (www.peza.gov.ph), under the "Downloads" section.

9. Requirement of PEZA Permit Form 8106

- Export Enterprise- All sales / withdrawals of finished goods from the zone shall be covered by a properly approved PEZA Form 8106, validated by authorized PEZA and Customs personnel.

- IT Enterprise- One PEZA Permit Form 8106 for the entire Monthly Summary Report (EOD 1.F. 004) shall be issued / approved by the PEZA Zone Manager. The Monthly Summary Report shall be submitted to the PEZA Zone Manager not later than 20th Day of the immediately following month.

- Local Sales with involve transfer of equipment to local client's facility – All tools, equipment, other assets, and consumables to be withdrawn by RBE from the zone shall be covered by duly approved by PF 8106 and shall be subject to payment of duties and taxes / VAT to Bureau of Customs (BoC) due on the subject goods.

10. Local Sales Processing Fees:

No filing/application fee is required for local sales LOA. However, the following local sales processing fee shall apply:

- **Export Enterprises -** Under PEZA Memorandum Circular No. 2000-01 dated 14 November 2000, the processing fee for the Local Sales of Quality Finished Products is PhP1,000 or 2% of selling price whichever is higher, but not to exceed PhP10,000 per transaction.

- **IT Enterprises –** In accordance with B.R. No. 07-089 dated 13 February 2007, payment to PEZA of a local sale processing fee equivalent to two percent (2%) of the selling price, but not more than PhP10,000.00 per transaction.

11. Reports

RBEs

All RBEs that have been issued LOAs on local sales are strictly reminded to be mindful of the required reports and the corresponding deadline for submission, which are all indicated in the LOA, to avoid delays in the processing of renewal applications and the penalty for late submission of said reports.

ZONE OFFICE

The Zone Office shall submit a summary of LOAs issued on a monthly basis using the attached prescribed format to the Enterprise Operations Department at eod@peza.gov.ph . The report should be submitted within fifteen (15) days from end of each month. Should there be no LOA issued for the month, indicate in the report form "NO LOA ISSUED FOR THE MONTH."

12. Applications Filed with EOD

Applications already filed with the Enterprise Operations Department as of **30 September 2023** will be processed and released by EOD.

13. LOCAL SALES LOA APPLICATIONS STILL UNDER HEAD OFFICE

a. RBEs with local sales exceeding the prescribed limit in the preceding taxable year; and,
b. RBEs with multiple sites (whether Export Manufacturing or IT Enterprise)

Application/requests pertaining to the above shall be forwarded to the PEZA Enterprise Operations Department (EOD) at loa.eod@peza.gov.ph, for processing.

B. LOA FOR DROP-OFF SALE TRANSACTION

1. What is a drop-off sale transaction?

A "Drop-Off" sale transaction is a sale of a PEZA-registered export / IT enterprise (Company A) of its registered export product to an overseas customer (Company B), to be paid for in foreign currency by that overseas company, but for delivery to a non-PEZA domestic market enterprise (Company C) or to a PEZA-registered export-producer enterprise, an export producer enterprise registered with BOI/CDC/SBMA/AFAB and other Investment Promotion Agencies (IPAs), (Company D).

Drop-Off export sale to company C or who's end-receiver is a non-PEZA domestic market enterprise or enterprise in the customs territory, even if for the account of the client abroad, are considered as local sales, in accordance with PEZA MC No. 2020-003 dated 03 January 2023. (*Please see item A.6.5 of this issuance)*

On the other hand, drop-off export to Company D whose end-receiver is a PEZA-registered export-producer enterprise, an export producer enterprise registered with CDC/SBMA/AFAB and other Investment Promotion Agencies (IPAs) or a BOI export-producer enterprise operating a Customs Bonded Manufacturing Warehouse (CBMW) / accredited member of a duly licensed Customs Bonded Manufacturing Warehouse (CBMW) operator.

2. Documentary Requirements for new and renewal applications for drop-off exports LOA

1. Pro-forma application letter in official company letterhead, addressed to the PEZA Zone Administrator/Manager/Officer-in-Charge
2. Delivery instruction issued by the Client Abroad indicating the following:
   a. Description of finished goods, quantity and value
   b. Export Enterprise Client and Zone Location
3. If the drop-off export sale is to BOI/CDC/SBMA/AFAB/ other IPA-registered export producer enterprises
   a. Valid BOI Certificate of Registration and Tax Exemption as Export Producer; and Customs Bonded Warehouse Certification/Accreditation; or
   b. Valid CDC/SBMA/AFA/other IPA Certificate of Registration with export manufacturing activity and Certificate of Tax Exemption
4. Liquidation report of previous LOA, duly signed by two (2) highest responsible RBE officers and endorsed by the PEZA Zone Administrator/Manager/Officer-in-Charge (for renewal LOA only)

3. Drop-Off LOA Processing Fee

A LOA Processing fee amounting to PhP1,200 shall be paid prior to acceptance/filing of LOA application

C. EFFECTIVITY: 01 October 2023

For guidance and strict compliance.

VSS/CVC/jrd/rtp